The Economics of Poverty

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To H.W.
the author of
The War on World Poverty

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Acknowledgements

I was asked by the Publishers early in 1964 to assemble, comment, and write an introductory essay to my papers in the Economics of what was known a decade or so ago as underdeveloped, and now is referred to as developing, countries.

All that follows, unless put in square brackets with the date, has been written before the General Election, the establishment of a new Ministry of Overseas Development and my own assumption of official duties. After reflection and official advice I decided to leave the material completely untouched. Nothing that I say should therefore be taken as reflecting in any way the official views of Her Majesty's Government towards the issues dealt with in either the introduction or in the comments.

I wish to express my gratitude to Dom Mintoff and Norman Manley for permission to reprint parts of reports prepared for them when they were Prime Minister of Malta and Jamaica respectively. It was a great privilege to serve them and an invaluable opportunity to gain experience under a microscope, so to speak, of the varied problems facing countries whose production and income lagged behind the privileged Regions, mainly around the North Atlantic. I am greatly in debt to Mr Sen, the Director-General of the Food and Agricultural Organization of the United Nations for permission to use some of the original manuscript for reports published by FAO and to my colleagues Dr Glesinger and Henry Ergas. The opportunity of working at FAO provided me with great intellectual stimulus, as did my stay at the Economic Commission for Latin America under Dr Prebisch and Louis Swenson and with CEMLA in Mexico. I owe to my work with Professor Mahalanobis and Pitambar Pant and Rene Dumont more than can be acknowledged. Dr Sir S. Ramgoolam and Mr Boollel of the Government of Mauritius gave me an opportunity to study yet another problem area, as did the Special Fund of the UN and especially Paul Marc Henry. I have received much encouragement from Professor Saraceno and his eminent team in Svimez who were responsible for first bringing the problem of regional handicap before the world and for securing action. I am equally grateful to

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Introduction

All these essays – and a number of unpublished official reports – are the result of my work abroad in the past decade [written in 1964]. At its start the great debate on Bretton Woods had ended. Those few who held that the problems of this country were due to deep-seated sociological and structural defects had been utterly routed. Britain, under the Attlee Government uncertainly, under the Tories deliberately and furiously, had turned towards a kind of liberal mystique in order to solve her basic economic problems. These had unbalanced and defeated all her Governments, Tory, Labour and Coalition, ever since 1918. Faith in the working of the price system was as utterly and intolerably dominant in 1951 as it had been in 1924 on the eve of our return to the pre-war parity. At the end of thirteen years of Tory rule dominated by the Whiggish principles of the bureaucracy, the Labour Party could look forward to inheriting the gravest and most intractable of all crises which insistently and naggingly disfigured the post-war history of Britain.

The problems caused by structural and functional defects (mainly originating in foreign trade) which have defeated efforts at accelerated development, the problems of Unequal Partnership, which rendered absurd the simplest dilettante approach in Britain, were, of course, far more acute, far more insistent in the underdeveloped world. Yet there, too, the intolerance, the illiberalism of the 'liberalizers' was to dominate. The international bureaucracy under a post-war leadership recruited from the US and Britain was enforcing its malignant dream-world pattern everywhere and with even worse results than in Britain. And, as in Britain, only a handful of economists, most notably Prebisch and Myrdal, stood out against the destructive tide, which receded only slowly, and seems to be working up to a new crest.

The first of these essays in chronological order is taken from a report written – with Dudley Seers[1] – for the Labour Government in Malta in 1955, much against the wishes of the Colonial Office. It was the beginning of Dom Mintoff's imaginative proposal to integrate

[1] [Now Director-General of Planning at the new Ministry of Overseas Development—1965.]

Malta into the UK.[2] From that time onward I rarely spent university vacations and sabbatical leaves at home. The Governments of Jamaica, British Guiana, Mauritius, India, Greece and various United Nations agencies, especially the Food and Agriculture Organization, the Special Fund and the Latin American Economic Commission, as well as the Organization for European Economic Co-operation and the Organization of American States gave me opportunities to work on problems of stunted development.

It became obvious to me that the simpliste rules based on perfect competition and the implied unimportance, if not complete irrelevance, of size, social framework and psychological attitudes made nonsense of the problems of all but a handful of countries. Yet dominant opinion in this country, in the US and, with their strength reinvigorated, in the Western European countries also, clung to those mischievous dogmas. Even the misfortunes of post-war England, which are not altogether unrelated to the problems of faulted economic expansion did not make any impression. Nor did the disintegration of Empire invite self-criticism. My attempts at putting forward a new approach were quite unsuccessful:[3]

> 'Once the need for conscious planning and state intervention was accepted, the size and resources of geographic units became a vital determinant of policy. Conscious planning demands a highly organized effort, a far-reaching specialization and the supply of talent. It also demands varied resources: on a small scale, costs become prohibitive.
>
> Subconsciously even the most extreme "liberals" accepted this need. In many of their measures of 'liberation' – from Ireland to Ghana – they were only too willing to coerce, or tolerate the coercion of, recalcitrant minorities.
>
> In many of the erstwhile colonial areas, the existing territorial divisions had little relation to the ethnic, cultural or historical ties of the peoples concerned. They were the result of the last frantic surge of expanding imperialism grabbing all available territories. The present frontiers of Ghana or Nigeria, for instance, have no secure foundation, economically or historically. A strict application of self-determination would inevitably lead to a splintering of

[2] The sequel is discussed in a note.

[3] *Fabian Colonial Essays*, pp. 92–4, 'Britain and the Dependent Commonwealth'.

the area analogous to the decomposition in Italy or Germany after the fall of the Holy Roman Empire.

Nor is this all. A socialist cannot be indifferent about whom power is handed over to, and under what circumstances. The liberal answer that it is to the "majority" or to the "duly" instituted government cannot satisfy anyone genuinely interested in the welfare of the population of colonial areas. The conception of granting rights of "self-government" by introducing parliamentary "democracy" of the British type might be regarded as meaningful in a homogeneous country of some general education. But even if it did not involve the handing over of a large majority to the tender mercies of a ruthless (if formally and technically higher educated) minority – as in the case of South Africa or the Rhodesias – it might be disastrous. How many of the "new democracies" will survive?

The immediate past of the dependent areas was dominated by the policy and moves of the Metropolis. Thus the transfer of power at an arbitrary moment, without previous reforms, might well, if not perpetuate, at least unduly prolong the rule of local tribal, feudal or semi-feudal classes whose exploitative oppression in many cases might well outstrip that of Britain, even in her long past, and more imperialist, moods. From the point of view of the local underdog "liberation" might well mean renewed enslavement. The only way in which privileged classes could hope to preserve their unmerited advantages was by creating strong anti-British feeling, and misleading their underdogs through vicious propaganda into the belief that the "Colonial Office" or "Britain" were responsible for all the ills, due in fact mainly to themselves. Unfortunately, lack of imagination amongst the greater number of British administrators inclined them towards the existing domestic social order,[4] however inimical that system was to the long-run prospects of the British connection.

Thus a great chance of associating the dispossessed majority with the protecting power – surely a basic aim of a democratic socialist policy – was missed. As we shall presently see, this combination of quasi-feudal political administration with simon-pure economic liberalism could not have been worse from the point of view of the maximum progress of the territories concerned.'

[4] How could archbishops be regarded as anything but upholders of the Establishment and chevaleresque sheikhs as anything but pro-Sewell? The disappointments were not restricted to Palestine, Egypt and Cyprus.

I concluded:[5]

> 'Britain should certainly do its utmost to enable the establishment of SUNFED, the United Nations instrument for aiding the development of poorer areas, because in the more distant future it might well provide an acceptable and less dangerous channel for United States economic help; it should continue to give support to the Colombo Plan which is open to non-Commonwealth areas. It should certainly press for a reform of the recruitment of the personnel of these agencies and also insist on the need for new, democratic control to make these international bureaucracies more directly responsible to the people whom they aid, but also help to rule. The formal status as advisers should not shield them from criticisms. But the British direct effort of help to the Sterling Commonwealth should go parallel with and, in case of doubt, take precedence over, our aid to international agencies.
>
> There is not much time to lose. The present policy is steadily undermining the economic cohesion and advantages of a membership of the Sterling Area at a moment when the United States recession and the slump in United States commodity prices have provided a unique opportunity for a restoration of a stable Sterling Commonwealth. The complications arising to the Commonwealth out of the misguided conception of European Trade might spell the end of its cohesion. Moreover, on a recurrent 7 per cent or even $5\frac{1}{2}$ per cent interest basis there can be no economic development. Once a situation has been created where Britain would have to make unilateral sacrifices without any hope of reciprocity, Little Englandism is bound to win, however costly its consequences might be, in the longer run, in terms of instability and dependence on other countries' (especially the United States, Germany and the Soviet Union) economic policy. At the same time, the lack of expert knowledge which helps to undermine British prestige, the obvious shortcomings of our educational and cultural arrangements, steadily push the countries which used to depend on Britain towards other sources of knowledge and inspiration. We shall soon be confronted with the choice of planning in common or seeing the poorer areas planning without, and therefore against, us. They will not consent to remain hewers of wood and drawers of water. Britain has no power of forcing them to

[5] *Fabian Colonial Essays.* 'Britain and the Dependent Commonwealth', op. cit., pp. 126–7.

> accept that position even if British socialists were not as fiercely opposed to such exploitation as the exploited themselves.
>
> But, and this is important to remember, time is not on our side, and a new approach would represent a complete break not only with the past in general, but also with those tenets of liberalism which, however oddly they clash with the rest of its programme, have until recently not been effectively opposed by Labour. Intellectual revolutions usually are even more painful than social upheavals. Our task, therefore, is not easy. But it is an inspiring, because unprecedented, task of transforming imperial decay into socialist Commonwealth co-operation.'

This opportunity was lost. The revolution since 1945 transformed Africa and South Asia into the greatest jumble of independent states without time for thorough technical preparation to assume new duties. While in Asia there is at least a common history and (apart from Singapore) some semblance of linguistic and racial unity (or predominance), in Africa even this is mostly lacking. The existence of most 'states' is due neither to geographic advantage nor ethnic unity. They are the ultimate chance results of the disastrous rivalry and the chase for trade and colonial aggrandizement of the Great Powers at the end of the nineteenth century. This, as we shall see presently, has fatal implications if only because the creation of a new feeling of national - as against tribal or racial - unity is as wasteful of scarce resources as it is full of temptations, and (perhaps most important) hostile to wider regional integration or even co-operation.

In addition the new countries are the inheritors of the old imperial institutions, especially in administrative structure and spirit, which after the Second World War, and even more after independence, lost all socio-economic relevance. They were created to assure 'law and order', i.e. to create conditions in which the metropolitan economic interests could safely and profitably operate. They had little, if any, relevance to problems of modern political endeavour, of domestic social advance and economic expansion. Indeed[6] if those of the inhabitants directly employed could in most cases be said to have benefited (though often at a terrible social cost of a destruction of old bonds – e.g. family or tribe – without creating new ones[7]) it is equally

[6] See Section One, Chapter Two.

[7] The same disintegration of family life seems obvious even in the US among analogous sections.

true that the institutional arrangements set sharp limits to a balanced development of colonial territories.

Nor is it likely that a longer period of transition, a postponement of independence, would have lessened the problems of the new states: the imperial bureaucracy was not fit to cater for their needs. Despite the undoubted goodwill and admirable principles of the Labour Ministers in the Attlee Administration, the so-called 'plans' for the Colonies were usually a jumble of uncorrelated and incoherent departmental capital projects. And the 'planners' were thinly disguised dilettante administrators.[8,9]

However that may be, the transfer of political power could hardly have happened in less auspicious circumstances. There was insufficient national personnel even to man up the existing administrative machine. Yet independence meant an immediate increase of expectations. While the chiefs, and such urban elites as existed, could fulfil, and much more than fulfil, these new ambitions through the sudden opening of opportunities, it was quite impossible to provide trained man-power in the quantity needed to execute the policies on which the material hopes of the broader mass depended. What happened was that in a spirit of paternalistic superiority the 'best that Britain (or France or Belgium) could offer' in the way of elite education was helter-skelter transferred to Africa (and Malaya, Ceylon, etc.[10]). The new bureaucracy which was created is to a large extent a faithful reflection of the social failures of the imperial regime. The charismatic political leaders were in most cases also educated and profoundly influenced by the same formative social forces and attitudes.

The demand for equality with the expatriate administrators has created a class system crowned by the new elite in a privileged urban existence (only limited by the demands on the successful by their extended – and how extended they are – families or tribes) which faithfully reflects many of the less fortunate features of the colonial past. Meanwhile technical performance is lagging. Moreover – and even in the French territories formerly administered as large (if not

[8] International agencies were likewise a favourite unloading place for ex-colonial officials. Some of these, of course, represented the only available source of technical knowledge for tropical countries. But only too numerous were those quite unfit to give technical advice under conditions of independence.

[9] Cf. Britain and the Dependent Commonwealth, op. cit., and The Crisis of the Commonwealth. (Centennial Review Winter 1963. Michigan State University.)

[10] Cf. Section Three and, especially, Chapter Seven.

integrated) units[11] – independence involved partition, and partition economic balkanization because the new units (apart, perhaps, from the Congo and Nigeria – both of which however are menaced by strong centrifugal forces) are hardly viable and will be certainly unable to sustain self-supporting development towards high enough material bases for a happy existence. It is yet to be seen whether the centrifugal forces will be overcome through the realization of the frightful implications of extreme nationalism.

A steady strengthening of regional co-operation and planning by the bilateral and multilateral agencies responsible for international aid is an essential need if these destructive forces are to be overcome. The fractioning of the duty to aid development between national and multilateral agencies, and between the multiple and autonomous members of the United Nations 'family' (an often quarrelsome one indeed) and the consequential unnecessary duplication (especially at a time when there is extreme shortage of trained man-power) each eager to extend its activity, would militate against such coherent planning to establish viable large-scale units in the economically fragmented continents, even if the political forces against it were not so strong.

Balliol College June – August 1964

[11] Cf. R. Dumont's brilliant report on ex-French Africa, 'L'Afrique Noir est mal parti', translated into English as 'False Start in Africa'. André Deutsch, London, 1966.

Section One

THEORY AND REALITY

CHAPTER ONE

Economic Policy and the Price System

THE IDEAL

Much of the current discussion of economic policy in Latin America, and, even more, of particular measures or institutional arrangements such as the proposed Latin American common market or Latin American payments union, is couched in terms which suggest that the main, if not the sole, problem of these countries is the restoration of the 'free' play of the price mechanism and the elimination of inflation. Thus economic restoration is viewed exclusively as aiming at the removal of artificial interferences with the working of the price mechanism.[1] There seems to be no recognition of the fact that an acceleration of growth and optimal progress might, in the circumstances confronting these countries, demand positive, systematic, and discriminatory policies.

It is clear that the underlying and implicit hypothesis is that most, if not all, of the distortions in the economic system, at any rate in Latin America, are the result and not the cause of inflation. The inference is that with the elimination of inflation these distortions would also disappear, or at any rate that there will be such a net reduction of distortion that it would make possible an optimal increase in the rate of growth. The implicit character of the hypothesis dispenses with the need to demonstrate that the rather stringent conditions in which this view might be valid do in fact exist in the circumstances to which it is being applied.

Thus no answer is given to the question whether the relative price system, once inflation is eliminated, can be expected to revert to

[1] See the memorandum on payments systems submitted by the International Monetary Fund to the Meeting of Governmental Representatives of Central Banks, held at Montevideo, which is reproduced in the *Revista de Ciências Econômicas*, No. 2, São Paulo, June 1960.

something corresponding to the ideal pattern that would lead to an optimal allocation of resources and, therefore, also an optimal rate of growth. Nor is it clear whether measures of monetary stabilization are themselves thought to have any impact on relative prices, other than restoring their 'natural' level.

Hence it would seem useful to recall the assumptions on the basis of which such claims were originally put forward, assumptions which are apparently forgotten when the conclusions are applied to current economic issues.

There must be full employment. The distribution of income must be desirable or at least politically tolerable. Consumers' tastes must be independently determined, must not be influenced by the policies chosen. Both product markets and factor markets must be perfectly competitive. The capital market must function in accordance with the assumptions of the model, i.e. allocate capital at negligible cost among projects according to their relative profitability. There must be a significant response by either savings or investment to changes in the rate of interest. There must be no considerable divergence between, on the one hand, private money costs and returns and, on the other, social real costs and returns. In particular, investment projects must be marginal (not 'lumpy') and should not significantly affect the returns of other investment projects (external economies). Cumulative movements – favourable or unfavourable – diverging from the original position must also be ruled out.

A further complication arises with the introduction of international economic relations into the simple model. In an open economy with foreign trade relations, the rules of the 'free' market would apply only if the terms of trade were independent of the policy pursued. But most countries in Latin America are specialized exporters, the demand for whose produce is not infinitely elastic. Thus, as will be seen, any liberalization of imports would, in fact, tend to result in a worsening of the terms of trade and therefore a fall in real income. Since Latin America is relatively poor, such 'monopolistic doctoring of the terms of trade' as would be implied by a restriction of imports can hardly be rejected on welfare grounds.[2]

The efficient operation of the price mechanism is thus dependent on the full social (income-distribution) and economic integration of the economy. In this article an attempt will be made to show that

[2] Even though the alternative, an equivalent free grant from the fully developed countries, if available, might be preferable.

these conditions for the successful working of a market economy are not fulfilled in the economic framework of countries at the stage of development reached in Latin America. Both factor and produce markets are fragmented, and there is not even a tendency towards equalization of factor remuneration. In addition, given the great difference in the degree of imperfections, the monetary measures enforcing stability might, because they can only operate through the creation of increased unemployment, further undermine the validity of the assumptions on which they are based.

Moreover, monetary measures ought not to distort relative prices and thus factor allocation: the maintenance of the complete integration needed for the optimal functioning of the price system is compatible only with measures which are neutral in this respect, i.e. those which operate in a diffused, general way and do not impinge with different severity on different sectors of the system. This is generally accepted by the critics of direct controls, who base their attacks on direct regulation on the fact that they have severe directional or sectoral effects and thus disrupt the harmony of the system. It is not so generally realized that, unless they act on marginal demand for capital through a rise in the cost of borrowing, monetary measures might equally have such strong directional effects. They will impinge on the construction and possibly the consumption of durable goods. They will act by rationing borrowers rather than by reducing the desire to borrow: the impact of interest as a cost element has become extremely weak as a result of the need for speedy depreciation and of modern direct taxation. Thus restrictive monetary measures might cause new distortions, even in a well-integrated system, rather than remedy distortions caused by previous monetary unbalance. It is unlikely that the directional effects would happen to coincide with and offset the existing disequilibria.

Monetary policy will impinge on projects which are particularly vulnerable to the pressure it generates. Apart from the creation of unemployment, certain prices and incomes will come under specially severe pressure, and the sectoral differences will be further accentuated in a way that harms the most vulnerable parts of the economy. Within these sectors, the restriction will be most effective against those least able to defend themselves by monopolistic practices. In an underdeveloped area, where there is strong monopoly market power, this means that the sector of labour least able to protect itself, i.e. unskilled workers, will be most affected. The general upward

pressure on wages and prices in the rest of the economy need not be – and historically has not been – affected sufficiently to stop upward pressures immediately. The fragmentation of the economy, combined with the tenor of monetary policy, results in stability having to be purchased at the cost of significant unemployment, because the degree of employment and investment compatible with stability in the most monopolistically protected sector will, *ipso facto*, mean much more severe pressure and unemployment elsewhere. These phenomena, which are apparent even in the United States and United Kingdom, assume much greater importance in less developed areas with a social and economic structure akin to those of the Latin American countries. Under these circumstances, monetary restriction, instead of restoring a perfect price system, is likely to increase the degree of monopoly and sectoral unbalance.

It should not be concluded that policies involving direct government intervention and control exercised in a milieu of limited administrative capacity, under intense and conflicting pressures from political power-groups, might not seriously aggravate economic unbalance. If such measures are intended to check incipient inflationary pressure and are applied without sufficient vigour or scope, it is only too likely that new disequilibria and bottlenecks will be created, hampering a policy of balanced development and stability. However, monolithic explanations of the problems of underdeveloped areas, especially of a demand-inflationary character, and a therapy based on them, must be severely scrutinized as being *a priori* suspect of illicit simplification and exaggeration. Relations between economic factors are seldom reversible or symmetrical.

THE REALITY

Even in highly developed communities, socially and economically integrated, sectoral problems tend to defeat what might not unfairly be called the 'negative liberalizing approach', as a means of restoring the efficient working of the economic system through the 'free' price mechanism. In underdeveloped countries, the failure of this approach is immensely aggravated by the inherent defects of that mechanism.

These defects are due, in the first place, to large-scale unemployment, especially in agriculture. In the second place, they are the consequence of the deep-rooted lack of integration between the various

important sectors of the economic structure, parts of which are only imperfectly linked with the market – or money – economy. Within each of the sectors of the economy, there are faults no less deep in the markets both for productive factors and for products. All this is aggravated by extreme differences in monopolistic market power, and perhaps also in the capacity for exerting political pressure. Thus there is neither mobility nor even a semblance of unified markets.

Consequently, short-run money costs and prices fail to express long-run relative social-opportunity costs, even more than they fail to do so in better integrated and more competitive economies (i.e. leaving aside the problem of external economies, which are not taken into account in either system). As this failure is more far-reaching in certain sectors than in others, the present short-cut recommendation to restore the 'free' play of existing market forces would not promote, or even permit, an efficient allocation of scarce resources. It might well perpetuate and further aggravate their present inappropriate use. In particular, since the problem of unbalance between agriculture and industry is grave, it would leave labour in what is, taking the long-run social view of classical comparative costs, an inferior employment.

It should be noted that, in the case of economies at an early stage of their development, the failure of current money prices to reflect the immense potentiality of external economies both of production and of consumption is far more detrimental to welfare than in richer countries.[3] The 'lumpy' character of investment makes itself much more felt at a low absolute level of accumulated capital, and the reduction of costs with the increase in the scope of markets might be of a dramatic nature in poor countries.

Hence, attempts to single out some factor, usually the monetary one, for a monolithic global explanation of the failure to achieve great progress seem entirely unjustified. If we are looking for the reasons why, in some cases, accelerated development has not been achieved, why it has not, in others, been compatible with monetary stability, we must investigate the sectoral structure of the economy and the precise relations of these sectors to one another. In this way, the historical uniqueness of each case can be recognized, while some restricted general features of the mechanism of instability can

[3] Mr Streeten and I have adduced reasons why external economies are of much greater importance even in rich systems than is usually assumed. (See 'Foreign or domestic investment', *Bulletin of the Institute of Statistics*, Oxford, 1960.)

be established. The precise nature of this mechanism in fully developed countries will obviously differ from that in underdeveloped areas, even though some common factors might be discovered. The same monetary and fiscal policy gives very different results in countries with different basic structures (e.g. even as between the United States or the United Kingdom and the Federal Republic of Germany, and far more so as between one of them and either Argentina or Chile). From this analysis, one might hope to gain some insight into the conditions needed to ensure accelerated growth while maintaining stability. Short-cut recommendations are not likely to succeed.

Special features of Latin America include its rapid population growth, its dependence on exports, in the main rather unfavourably placed, its singular social structures, and its distorted productive patterns. These features will obviously influence, if not determine, the character of the problem of how to make the price mechanism work in such a way as to achieve optimal growth.

The Defective Integration of the Economy

Professor Williams, in his celebrated article (*Economic Journal*, 1928), pointed to the imperfect domestic mobility of labour as a serious limitation on the applicability of the classical analysis, since this analysis assumed perfect domestic equalization of factor incomes through mobility, in contrast to the absolute immobility of productive factors assumed in international economic relations. Imperfection in labour mobility exists in a more severe and dangerous form in underdeveloped countries.

As a rough approximation, the economy of most underdeveloped areas, especially in Latin America, might be conceived as being divided into four parts:

(i) The fully developed, mostly foreign-owned, sector mainly producing minerals or agricultural produce for export and often with an extremely high output per head, relying for capital and technical knowledge on foreign markets and resources;
(ii) Traditional agriculture, often monoculture, producing cash crops for markets rather than representing a self-sustained subsistence economy, of low output per head, and usually showing extreme inequality in the distribution of land-ownership;
(iii) Domestic industry, under heavy protection against foreign competition and sometimes in a consciously created position of

monopoly, confronted with a fragmented labour market in which the skilled workers in a number of trades form strong unions, while unskilled workers partly drawn from agriculture are virtually unprotected, except by laws which are often not effectively enforced;

(iv) Services, especially distribution, banking and finance, again in a closely knit structure of monopoly or oligopoly. Transport and public utilities are often State enterprises working at heavy losses and, if privately owned, at times controlled with prices at a lower level than the general level of profits would seen to justify. Thus these sectors tend to become bottlenecks, at times severe.

This fractioning of the economic structure produces two equally unfavourable results. It leads, in the first place, to an unsuitable allocation of factors; and, in the second place, it renders the system inelastic, and incapable of responding to economic stimuli considered 'normal' in more highly developed countries.

Unsuitable Allocation and Factor Prices

The problem of agricultural labour. The real consumption of individual members of a peasant family is determined by the earnings of the family as a whole, It is, even in Latin America with its relatively rich endowment of land relative to labour, likely to be higher than the productivity of the marginal member of the family, which approaches zero and might possibly be negative. In contrast, urban wages are high because of the much higher cost of urban existence and partly because of trade-union pressure. Thus the expansion of industry is impeded by its higher money costs, even though from a national point of view a faster absorption of agricultural labour would raise productivity. There is a fatal discontinuity in the structure of costs between agriculture and small handicrafts, on the one hand, and lage-scale enterprise, on the other. Even in countries like Japan with a large and energetic entrepreneurial élite this is a severe handicap to expansion. Its paralysing effect in some countries of Latin America is increased by the absence of an industrial leadership which could begin to bridge it. The mercantile tradition of the urban areas and the large monopoly profits which can be obtained from trading constitute further obstacles to industrial expansion. Employment in various industries, especially trade, is far higher in Latin America than would be justified by the average national productivity. In Argentina, Chile,

Venezuela, and Cuba, it was between three-quarters and nine-tenths of the United States ratio. The consequences of this are discussed below.

In those countries of Latin America in which industrial development started as a result of the two world wars, only comprehensive protection was able to shift agricultural workers into industrial employment. Unfortunately, the process was neither carefully thought out nor consciously managed. Thus it took place mainly during foreign-exchange crises when import substitution became imperative and at the same time difficult to achieve. Whenever the pressure ceased, the relief was not used for a systematic development of industry. Hence, the real income of agricultural workers, already miserably low, tended to be reduced further by increases in industrial prices.

It is unlikely that the situation of the peasant can be much improved without securing a decisive improvement in the distribution of land-ownership, either through land taxation or through agricultural reform. This is likely to take a considerable time. It is also essential to improve production techniques and, in particular, to decrease the seasonal character of agricultural work: the peak sowing and harvest requirements will otherwise prevent a shift of a large portion of the working force.

In the short run, rural public works might be the best way to tackle the problem. Such rural works might also encourage co-operative organization and, by injecting additional incomes, accelerate rural reorganization. They could, in addition, help to create the substructural investments needed for increased output and reduced seasonal strain on manpower.

The problem of non-rural labour. The scantiness of budgetary means for education, attributable partly to insufficient and regressive tax-structures and partly to the high proportion of unproductive expenditure on administration and defence, has left even the non-rural labour divided into sharply differing groups of utterly different education, technical skill, and capacity for organizing themselves. Thus the difference between salaries and wages, and between incomes in different sectors, is extreme, reflecting unequal bargaining and political power. This necessarily distorts the international comparative-cost position of the country. In conjunction with monopolistic or oligolistic dominance, a rather strong deterrent to expansion is introduced because of the likely use of the market power of industries to increase

profit margins and because of the wage demands of certain privileged sections of fully employed labour. However justified these may seem to be from a human point of view, they cannot but further reduce the prospect of proper integration of the economic system as well as of sound industrial development.

The problem of the unsuitable capital substructure. The character of much of the present substructure of social capital provides a further influence militating against a balanced growth of the economy and impeding a shift from primary production even where relative social-opportunity costs indicate that such a shift would be desirable. The evolution of this capital structure has historically been dominated by the distorted system of costs and prices favouring primary exports and the import of manufactures, and it in turn exaggerates this distortion.

Thus the transport system, especially the railways, has primarily been built for exports and imports rather than to encourage balanced development. As the case of the United States illustrates, a domestically oriented transport system cannot be built up on the basis of direct profits. Its construction needs to take into account, as was done in the United States through land grants to the railway companies, the external diffused benefits and profits which accrue to others as a result of the investment.[4]

In the same way, the banking systems in underdeveloped countries grew up in the nineteenth century in response to the effective demand of the highly developed areas for the reliable and efficient supply of food and raw materials. These requirements could best be satisfied by ensuring the stability of the monetary unit and by developing a sound banking organization which would at all times be safe. The former was achieved by tying the currency to gold; the latter by establishing branches of banks with head offices in leading financial centres and leaving them free to choose their assets. Liquid assets of impeccable security were not easily available in underdeveloped areas. Their governments were not encouraged to borrow at short term. The large expatriate companies financed themselves out of profits or by share issues in the financial markets of the highly developed areas. Thus the banks operating in underdeveloped areas kept a large part of their assets abroad on the plea that suitable domestic investment media for

[4] This has been generally accepted so far as road development is concerned. It is still ignored in the discussions on railway development.

their reserves did not exist. As regards the rest of their assets, they typically restricted their lending to liquid or self-liquidating projects. In practice, this meant the financing of exports and imports.

The banking system in underdeveloped areas thus became a potent influence helping to perpetuate the existing production patterns in these areas, however uneconomic they were on the basis of the long-run social comparative costs of the classical analysis. It cheapened the financing of exports and imports and drew capital away from the poor areas by providing an easy and safe way of investment in bank deposits which were mainly invested in securities of the large international financial centres. Thus even the scant savings which originated in the underdeveloped areas tended to flow towards the highly organized financial markets of the rich countries, and the cost of domestic loans for industrial development in the poor areas tended to cost more in so far as the financing of industrial investment was left to the moneylender. While foreign trade was financed on the basis of world rates of interest of between, say, 3 to 8 per cent. per annum, industrial investment had to be undertaken on the basis of rates of between 12 and 48 per cent. per annum. The divergence between the comparative social and private cost was furthered widened.

All this contrasts sharply with the beginnings of banking in the United Kingdom and United States in the eighteenth and nineteenth centuries, when the local bankers provided the financial basis of the industrial and agricultural revolution by undertaking local commitments, often incurring great risks. Their influence and activity deserve study in poor underdeveloped areas and will provide pointers to banking reform.

As regards the contemporary scene, the organization of strong central banks, capable of taking an active initiative in stimulating the diversification of the country through investment in industry and related social-substructure capital, might serve the same purpose. An example of such institutional structure which successfully stood the test of time was the Australian Commonwealth Bank in its original form.

The financial structure, including the system of intermediaries, must be organized on a competitive basis to keep the cost of channelling savings into investment to a minimum. The financial organization assumed by monetary theorists simply does not exist. There is in most cases a tight oligopolistic control of banking and finance. In

times of inflation, the control of the banks is often used to obtain credit at favourable (in real terms often negative) rates of interest. In times of stability, the gross profit margin of banking might be several times the normal level of the total rate of interest charged in highly developed areas, perhaps as high as 12–16 per cent., so that the gap between the borrowers' and lenders' rates of interest would alone be big enough to destroy any hopes of the optimal working of the system.

The distortion of the capital market is aggravated by the psychological impact of the past monetary history. Whether inflation was caused by monetary or by structural defects, it certainly results in deep-seated unbalance in the attitude of investors to saving and to financial investment. Instead of being attracted by productive projects, investors – especially the smaller investors – turn towards real-estate speculation and luxury building. The correlation in many countries between the ratio of building to total investment and the level of the capital-output ratio is striking.

Two consequences, both evil, follow. An artificial stimulus is imparted to export and import activities, because they can be financed internationally, to the detriment of domestic production. And an immense further stimulus is given to industrial monopoly, for only enterprises which are able to shift the burden of high rates of interest on to the consumer can survive.

The Problem of the Inelasticity of the Productive Structure

The rigidity of agriculture. Victory in the mortal battle for development in Asia, and perhaps even in large parts of Africa and Latin America, will go to those who succeed in mobilizing the idle or under-employed rural labour force. No doubt the process of growth will imply much more than rural mobilization. But even in countries where agriculture no longer supports an overwhelming portion of the total population, the mobilization of rural manpower for rural growth and the establishment of a flexible food base is of decisive importance, especially in view of the accelerating population growth in many of these countries. Only a decisive increase in agricultural production and productivity can provide the supplies of food needed for better standards of living in conjunction with industrialization, without an intolerable burden on the balance of payments.

At present, the conventional working of the market mechanism is often impeded in considerable parts of the agricultural sector because

of the inequality of the distribution of land and inappropriate land-tenure systems. It would be far from accurate to say that the owners of large and tiny estates (the latifundia and minifundia) are not activated by rational or economic motives. It would be more appropriate to assert that their motivations differ considerably from what is assumed in the instantaneous-profit maximization model of perfect competition (which has become highly inaccurate also in the fully industrialized areas largely dominated by oligopolies). The owners of the vast feudal landholdings which characterize certain parts of Latin America have no interest in improving the land, or even in maximizing output in the short run. They are interested in a maximization of their income over time, with the constraints of being able to maintain the most effective supervision of the work of their labourers and of incurring as little effort and risk, both economic and political, as possible. Thus in a large part of Latin America there is a heavy concentration on crops or animals that need relatively little care and enable the holder to absent himself for the maximum of time. Moreover, modern techniques would necessitate education, and education might encourage change. The aversion to change thus contributes to the continuance of outmoded production techniques.

The inequality in the distribution of land, which permits the landlord to be sure of a large income, also reduces the marginal utility of increments in terms of effort. Thus the traditional assumptions about the working of the system, assumptions on which important policy recommendations are based, are undoubtedly vitiated.

The minifundia, on the other hand, lack both the capital and, what is more important, the knowledge to react in the conventional way to price changes. Their owners are often subject to the power of merchants and moneylenders, whose reaction to improvements might well be to increase their charges. Thus the interest of the small farmer – and also of sharecroppers – in improvements is much reduced, if not entirely eliminated.

A further problem arises in this context. In traditional agriculture the monetary inputs, apart from being governed by average rather than marginal productivity, are relatively low. The opportunity cost of crops grown on land let on a sharecropping basis approaches zero; the income becomes pure rent. Thus, irrespective of the superior alternative possible use of manpower in industry, its use for agricultural products, including exports, remains possible. A large part of the proceeds serve to buy the supplies and services which the rich

desire, to a considerable extent imported luxury items and travel. With the increase of population, and often merely on account of monopoly market power, the share of the crop which can be exacted for rent increases. Thus the impulse to higher production is further decreased. The market mechanism certainly does not, and cannot, force landlords to alter the productive structure by eliminating the inefficient.

The situation differs only slightly in cases where the owner works his land through managers or stewards. The need for supervision remains. Money inputs, are, as before, not high enough to compel productivity improvements. A large part of the wage is in terms of land use or its produce. And productive inputs bought for cash – such as machinery, fertilizers and, the like – are kept traditionally at a minimum.

Two influences have raised land values above all relation to the yield of other forms of assets: one is that land-ownership is a social-status symbol; the other, that land is bought as a guarantee against possible monetary instability because of century-long experience of steady appreciation of land values. The high prices for land prevent its better distribution and, together with the existing monopolistic conditions in the financial markets, militate against commercial agriculture.

Thus the traditional system of land tenure, in its inequality, prevents the full mobilization of resources. The consequence is an extreme rigidity in the agricultural framework and output.

In some Latin American countries, however, landowners have shown an elastic response to price stimuli. In Mexico, Brazil, and a number of countries in Central America and northern South America, latifundia owners and a newly emerging class of often smaller-scale agricultural entrepreneurs have achieved considerable successes in increasing output and adapting it to changes in demand. In some countries, moreover, of which Brazil is perhaps the most important, there still exist large tracts of free land, which might be thought to limit the inequality in the distribution of income by providing alternative opportunities for tenants and landless labourers. Yet, for reasons which are not altogether clear, and which merit further detailed research, even the existence of free land has not, in contrast to the experience of the United States in the nineteenth century, set a limit to the inequality of income.

Thus the double handicap to industrial development deriving from

the poverty of the rural population, which has been discussed earlier, remains even in these countries. An additional problem is created by the fact that the supply of certain protective foodstuffs (e.g. fruits and vegetables) is held back by difficulty in securing a more equitable distribution of land.

This difficulty is much enhanced by the defective organization of marketing, which is only partly attributable to those deficiencies in the organization of domestic transport, to which allusion has already been made. When grading is inefficient, and the middleman is able, partly because of his power as a moneylender, to exact an undue share of the price paid by consumers, the response of production to changes in demand will be imperfect and sluggish. The establishment of marketing organization giving security from abrupt price fluctuation and enabling producers to obtain credit at reasonable rates might therefore help in increasing the elasticity of supply.

It should be noted that land reform in the sense of a complete redistribution might not be able to achieve full mobilization of agricultural resources, even though it might be beneficial from the point of view of income distribution and social balance. On the share-cropping estates there would be hardly any change in traditional methods of production. On large estates in owner management, there might be a fall in production. On the other hand, partial land-reform might well cause the landowner to farm his remaining holdings more effectively, especially if he receives compensation or credit. The total effect will depend on the circumstances in which the land reform is carried out.

If pressure for land reform is not extreme, a progressive land tax, based not on actual but on potential yield and accompanied by suitable taxes on water resources, might, in the short run, produce more favourable results, in the sense of increasing the elasticity of agricultural supplies. Such tax reforms must be accompanied by the establishment of an effective agrarian credit system, providing both long-term credit, enabling the acquisition by cultivators of the land entering the market, and supervised medium- and short-term credit to help create economically sound cultivation. The provision of extension services, supplemented by the introduction of improved seeds and fertilizers and advice on the effective use of water, is a further condition for success. The rigidity of the agricultural structure might also be loosened, as already mentioned, by undertaking rural public works in conjunction with these reforms. The increase of rural incomes will put

pressure on landowners, thereby speeding the sale of uneconomic units and spurring them to adopt better productive methods.

Should land reform be enacted, the same institutional changes will be required, but extending over far larger areas, since the change in ownership will be far wider spread. One possible method of effectively infusing new technical knowledge into the countryside might be the formation of co-operatives, to which the surrendered land would be, in the first instance, entrusted. This would enable the scarce expert knowledge to be used in improving growing practices, introducing better seeds, adequate fertilization, and the organization of irrigation. These might be severely impeded, or indeed made impossible, by a fragmentation of land-ownership. Support for these co-operatives for the farmers might be secured by having them undertake rural public works (See Section Two, Chapter Four).

In different countries the solutions that will prove politically acceptable and technically efficient will vary. A pragmatic approach is therefore essential. The aim should be to restore or maintain the growth and elasticity of production, while achieving a less uneven distribution of ownership and income.

Finally, it should be added that, in the absence of large-scale reorganization, piecemeal attempts at improvement might be not merely ineffective but actually harmful. Thus irrigation without drainage in a number of areas would poison the soil by salting. The provision of fertilizers without water and drainage might result in a total failure of crops through burning, although some crops might survive without fertilization even under the same conditions. The peasants' resistance to new techniques is therefore not as irrational as it is often thought to be.

Non-agricultural rigidity. The classical mechanism of readjustment is, of course, based on the existence of a large area of marginal choices imperceptibly merging into each other. 'Marginal' in this sense means divisible and small, not *grosso modo* choices between ways of life or modes of production.

Such marginal choices can only exist where the organic growth of the industrial structure has already been achieved, and increased mobility of labour and capital has led to an equalization of factor remuneration. As a picture of the conditions in underdeveloped areas this could not be further from reality. In these areas, individual projects usually bring about large-scale changes. The whole development

process is violently changing the relations of the various factors of production to each other. Any one investment decision is likely to lead to substantial changes in the markets and supply conditions of other firms. The price mechanism is thus inherently incapable of assuring an optimal allocation unless it is assisted and modified by conscious and discriminating measures, which can either consist of physical controls or be financial in character, i.e. taxes and subsidies.

The highly developed foreign-export sector. A number of Latin American countries possess a fully developed foreign-export sector which is an enclave, a State within the State, and which has no organic relationship with the rest of the economy. The capital needs of this sector are met from foreign sources at rates of return which are independent of the domestic ones.[5] The marginal productivity there is not related to the marginal productivity of the other sectors and will often be far higher than the average productivity of the metropolitan area which controls it. Transport facilities and energy provision have traditionally been shaped by its needs and help to perpetuate its superiority.

The very superiority of its productivity has certain important consequences. The relative taxability of the developed foreign sector has obvious political and economic advantages, but dependence on it implies the danger of not having any effective alternative on hand should any unfavourable development slow down or reverse the rise of exports. Even stationary foreign-exchange receipts from the fully developed export sector involve, *ceteris paribus*, an appreciable fall in real income per head from this source, if the population is growing as fast as it is in most Latin American countries.

Government revenue is only too often dependent on taxing the exports of the developed foreign-export sector, while domestic vested interests, even when successful in the export field, effectively prevent the imposition of a corresponding tax burden. So long as the exports of the developed foreign sector rise, and with them government revenues, the elasticity of the economy is safeguarded. An increase in import capacity may have more pervasively favourable effects than

[5] Though the yield paid might not be lower. There are often political risks, and the monopoly power of the large mining enterprises secures them high returns, making them disinclined to undertake projects on the basis of lower ones.

an increase in domestic physical productivity, since it permits much greater flexibility in satisfying demand.

Thus the continued expansion of the markets of the foreign sector has a significance for smooth economic growth which cannot be overemphasized. Any actual switch from that sector would involve a very sharp decline in productivity.[6] Even a failure to grow at least at the rate of the increase in population might result in a fall of average national productivity, because the small numbers employed by the sector are offset by the high output per head.

This threat to productivity is the more acute because of the exaggerated size of the mercantile sector. This is one of the consequences of the high productivity in the foreign developed sector. Partly because the contribution to government revenue is relatively much higher than would be normally supplied by the domestic sectors, a foreign sector which does not employ many people itself can indirectly maintain a large ancillary establishment. The distribution of employment in a number of Latin American countries between primary, secondary, and tertiary industries is more akin to that in countries of the productivity level of the United States than to that in other areas of the same average income as Latin America.

Thus the availability of goods becomes unduly dependent on export capacity. Shifts to industrial employment are seriously impeded by the monopolistic character of trade, by the lack of training, and so on. The outlets in trade for entrepreneurs are so remunerative, with profits being increased by disproportionately low ancillary costs (e.g. those of transport and banking) that there is little inducement for them to enter productive industry. The impediment to industrialization implicit in the nature of the agricultural sector, which has already been discussed, is further enhanced by the indirect consequences of the existence of a highly developed foreign sector. This must not blind us to the importance of the financial contribution which the fully developed foreign-export sector has made to the standards of living in Latin America. Government expenditure and national income would be far lower without it. The point to be made is that its existence renders conscious action to achieve a balanced development of domestic industry even more necessary than would be the case if that development had been impeded only by the distortion of

[6] The dependence on exports is enhanced if virtually free imports prevent the development of domestic industry while the service sector handling imports expands.

classical comparative costs because of the defective framework of agriculture.

The traditional agricultural export sector. In contrast to the mainly foreign mining and plantation enclaves, traditional agriculture is also divided in most countries between a domestic sector (often self-sufficient) and one which is mainly devoted to exports. As a rule, the export sector, based on the whole on large or medium landholdings, has a higher-than-average productivity but is not intrinsically in a position of superiority to industry. It is in those countries where foreign mining and plantation ventures do not play an important role that the shift from agriculture to industry is most impeded by the distortion of classic comparative advantages. Here no loss of real income would be implied in a shift towards industry. Traditional exports are important in this case because foreign exchange is needed to pay for imported capital equipment. The importance of the terms of trade is evident in this case too: the less favourable these are, the greater the justification for a shift to industry, but the greater the difficulty of securing such a shift.

The terms of trade and industrial development. The importance of this ineluctable fact is much enhanced by the uncertain prospects of primary exports, both those produced by the fully developed foreign-export sector and those produced by traditional agriculture and mining. After wars, especially after such a devastating one as the Second World War, economists usually foresee an increase in the relative price of primary commodities, i.e. worsening terms of trade for manufactures. This is strictly in accordance with the classical model of static balance, which assumes that the cost of production rises as demand and production increase.

After the last war, these predictions seemed more nearly borne out than in earlier periods. The improvement in primary-commodity prices encouraged the hope that the consequential increases in production and income might produce a sufficient basis for sustained growth,[7] especially if judiciously supported by foreign

[7] Not all writers shared this expectation. See, for example, Raul Prebisch, ECLA, *The Economic Development of Latin America and its Principal Problems* (E/CN. 12/89/Rev. 1), United Nations publication (sales No. 1950, II. G.2); *Economic Survey of Latin America*, 1949 (E/CN. 12/82), United Nations publication (sales No. 1950. II. G.1); and H. W. Singer 'The Distribution of Gains between Investing and Borrowing Countries', *American Economic Review, Proceedings*, 1950, p. 478.

aid. It also deeply influenced thought on the strategy of economic development.[8]

With the end of the boom consequent upon the hostilities in Korea, the post-war trend abruptly changed. The terms of trade of the manufacturing countries improved by some 30 per cent. It was perhaps even more ominous that the further rise in the relative prices of manufactured goods in the 1957–8 recession was not fully reversed in the subsequent recovery; thus the deterioration cannot be entirely attributed to short-term and reversible fluctuations in demand. And the vital question arises whether and how far a further worsening should be taken into account in determining the strategy of development. The matter is of the utmost importance. Any deterioration of the terms of trade necessitates an acceleration of import substitution. If a further worsening of the terms of trade is expected in future this would demand a completely different, far more domestically oriented investment programme.

This is not the context for a lengthy analysis of the actual export prospects of Latin America. There is, of course, no natural law governing these matters. The terms of trade of primary commodities against manufactures will be determined by the relative demand and supply, and these, as has been learnt in the last ten years or so, can change with astonishing violence. They are especially influenced by the market structure of the two types of products.

There is little doubt that the rate of economic expansion in relation to productive capacity in the rich industrial part of the world has been, and will remain, the main determinant of the outlook for the products of primary-producing countries. A slowing-down of growth represents the gravest danger to the poor areas. The rate of progress of Latin America's foreign market is not encouraging.[9] Advertising and innovation are likely to change the pattern of demand to the further disadvantage of goods with a relatively high content of primary commodities. Thus the general tendency of the demand for these commodities to grow more slowly than income will be reinforced.

[8] Underdeveloped countries, such as those of Latin America, have been periodically advised not to industrialize, even in recent years (see, for example, F. Benham and H. A. Holley, *The Economy of Latin America*, Royal Institute of International Affairs).

[9] The increase in population and the growing exports of manufactures in exchange for import of primary commodities by rapidly growing industrial countries, such as the Federal Republic of Germany, Japan, and the Soviet Union, might easily reverse the trend.

The relationship between primary commodities and manufactured goods is likely to be affected by the fact that the former are sold on organized world markets while the latter are supplied directly by the producers. Primary producers may be organized or constitute an oligopoly, as is the case among the great base-metal-producing firms and petroleum companies, or regulated by governments, as is the case with sugar and coffee. Nevertheless, the existence of free markets on a world-wide scale seems to destabilize prices of primary commodities relative to those of manufactures.

This greater sensitivity of primary-commodity prices to downward pressure is enhanced in the case of those products which are grown by small, weak, and remote producers, especially if marketing is manipulated by middlemen. Even when the market is not controlled in this way, the inability of the producers to store and carry stocks will tend to lower the prices they are likely to obtain. When producers are indebted to middlemen, this increases their vulnerability. It would be foolish to assume that this pressure on primary commodities will continue indefinitely. All that is claimed is that, in the present state of the development of the world economy, the possibility of worsening of the terms of trade of primary producers can be appreciable. This deterioration can occur both when the prices of manufactures are likely to rise before those of primary commodities, and also in those periods when the governments in the developed countries try to control the rise in prices by restrictive monetary measures. The relative sensitivity of primary-commodity markets tells against those products unless special countervailing measures are taken. Such measures are difficult to administer.[10]

In addition to these factors, which are quasi-short-term but likely to remain persistent, the poor areas have been beset with rather more structural handicaps, mainly in the biased character of technical advance and growth. The emergence of substitute materials and the reduction of waste through technical progress have played an important role in this respect. More important still was the rapid technical advance in agricultural production in the highly developed areas of the world, surpassing even the improvement in industrial productivity.

[10] In addition, the poorer areas are menaced by the so-called 'whip-lash' effect. Large corporations operating in both the metropolitan territory and elsewhere might be forced by political pressure to cut production abroad rather than at home (e.g. the Canadian experience). Protective measures of the metropolitan area (e.g. the Venezuelan experience with United States oil quotas) have the same effect.

Domestic protected industry. The difficulties and dangers to living standards arising out of even a relative decline in the fully developed foreign-export sector are enhanced by the problem of monopoly. The vicious circle of poverty and lack of investment represents a commonplace in development conomics. Most underdeveloped areas lack sufficiently wide markets for the establishment of competitive industry. The fact that they are late comers, together with the scarcity of skilled labour and the well-organized character of such skilled labour as exists, further impedes the rise of numerous units capable of facing import competition. The mercantile character of such capitalist classes as exist, and their proneness to tight organization, often implicit, completes the picture.

Import substitution will involve a real loss in income if it is an alternative to a further rise in the production and foreign sales of the fully developed foreign-export sector, because that sector is more productive and it enables supplies to be purchased from the most highly efficient foreign sources. This loss can be offset by the increase in the general level of productivity. If the periods of buoyant export markets had been used for a planned increase of investment in import substitution rather than for increases in current outlays, both public and private, the effects of the worsening in the terms of trade could have been easily handled.

This has not happened. In consequence, acute problems arise especially for countries interested in mineral exports. In this field, the domestic market is limited, and manpower cannot easily be switched. In the case of traditional agriculture, the productivity differences are not large between exports and production for internal consumption, and alternative domestic uses for land might be easier to find. The danger in this case is that the increase in internal consumption during a foreign slump might prove politically irreversible, or at least difficult to reverse.

But, as has been seen, the relative cost of industrial production prevents such an orderly process of unprotected import substitution.

In the absence of conscious planning and encouragement during favourable times of import substitution, the process is likely to take place in periods of crisis, owing either to the failure of foreign supplies (e.g. as a result of wars) or to balance-of-payments difficulties and heavy political pressure. Thus it will be difficult to prevent the emergence of unnecessarily large profit margins as a result of the exploitation of newly created monopoly power. It is not improbable that the

degree of protection granted will be far greater than necessary. If so, the loss in real income attendant on the shift from imports to home production may be accompanied by a redistribution of income from the lower to the higher income classes, i.e. from real wages to profits, as the result of an all-round increase in the degree of monopoly.

It is quite possible that an appreciable part of such investment as is managed will be frustrated by monopolistic influence keeping output low and prices high. In this way, a large excess capacity would be created. The inelasticity of the supply of manufactures is joined to that of agriculture. Since a large-scale substitution of domestic manufactures for imports will involve not merely a loss of real income but special pressure on non-profit incomes, the conditions are created in which strong unions can press for wage increases. The fractioning of the factor market will then be further aggravated. Thus monopoly power can transmit a cost-inflationary spiral.

A similar influence might be exercised by the interaction of supply rigidities in agriculture and industry. Insufficient expansion in agricultural output, at a time when population and industrial production are rising, can prove particularly pernicious in the case of goods with fairly high income elasticity and low price elasticity. If agricultural output as a whole does not respond to price stimuli, the tug-of-war between an archaic agricultural sector and a monopolistic industrial one would by itself seem sufficient to start a reciprocating and self-sustaining inflationary spiral.

Given the fragmentation of the product and labour markets, and the varying degree of monopoly, comprehensive measures aiming at an overall balance between monetary demand and supply need not, and probably will not, be effective in ensuring stability. Sectoral unbalance, added to monopolistic rigidity, might be the explanation of inflationary pressures. Monetary, global factors under these circumstances might respond to, rather than cause, unbalance. No significant conclusions can be drawn from purely monetary analysis, however tempting that may be because of the relative abundance of monetary statistics. In order to ensure stability by global means, sufficient pressure has to be exercised to restrain the least stable and most monopolistic sectors. This would seem to imply heavy unemployment or underemployment in the more elastic or defenceless sectors. The consequent overall discouragement is unlikely to promote growth.

The system is inherently so rigid that it becomes unstable and prone to cost-inflationary pressure. Both cyclical instability and the long-run weakness of export markets constitute a severe strain on such a framework. Given the fact that the rigidities of the system vary in degree, and that the sectoral unbalance might be of complex nature and also differ in extent, global measures, especially monetary restraint, are most unlikely to have a diffuse and neutral effect. Their directional effects might be strong and cannot conceivably be such as neatly to offset precisely the divergence of sectoral resources from an efficient allocation of scarce productive factors. Decontrol and monetary restraint are most inappropriate. Their unfavourable social effects are much aggravated by the fact that they might and probably will fall with particular force on a relatively restricted sector, while the reaction of the monopolistic sectors would be by way of restriction rather than by reductions of price through cuts in profit margins. The cessation of the growth of income might therefore be accompanied by a further worsening of its distribution. A formula more likely to maximize social tension can hardly be imagined.

Savings Investment and Income Distribution

In most underdeveloped countries with feudal or mercantile governing classes, a relatively low propensity to save is found together with a high propensity to indulge in luxury imports and travel abroad, Redistribution towards the rich, which is commonly regarded as a means of increasing savings, investment, and economic progress, certainly produces no such results in these countries.[11] It might even lead to a worsening in the balance of payments and to unemployment, as the products of low-quality home handicrafts and industry are displaced by high-grade imports.[12]

In this context it must be noted that a large part of the so-called savings in underdeveloped areas are used to buy luxury buildings. These should properly be excluded from savings and investment altogether. They represent a kind of durable goods consumption. The misleading high savings ratios and correspondingly abnormal

[11] Inflationary finance which redistributes income towards profits has not in this framework been able to increase the rate of savings and investment appreciably.

[12] In countries with a completely rigid agriculture, an increase in the income of the poorer classes might not lead to an improvement in the balance of payments as imports of food might become necessary.

capital-output ratios which have no meaning in the context of a discussion of economic growth, would then be corrected, so that they bore a more sensible relation to the growth rates experienced.

An increase in the rate of interest, according to historical experience, does not seem to have an influence on the rate of saving. Thus claims that tight or dear money could expedite economic progress by permitting a higher rate of investment are unfounded. A redistribution of income towards the poorer classes in general would not necessarily lead to a shrinkage in savings. Even if it did, its unfavourable effects might be more than offset by an improvement in the quality of private investment, such as the reduction of luxury building and of investment in oligopolistic excess capacity in industry (especially in industry producing luxury consumption goods). The capital-output ratio would then fall.

Policy, however, might be concentrated not so much on a redistribution of income at this stage as on increasing saving through deliberate budget surpluses.[13] A redistribution towards the poor can be supported on different grounds, which the report of FAO on Mediterranean development has tried to bring out.[14] This is that most of these countries have unemployed capacity in the handicraft or coarse consumer goods industries. Thus a redistribution of income towards the poor, if well managed, could bring about a fall in the propensity to import, which in turn would permit an increase in national income without a fall in investment. This would have to be very carefully managed, as it might get dangerously out of hand and cause inflation.

The greater the monopolistic or feudal agrarian distortions of the 'normal' working of the price mechanism (which has, of course, never worked 'normally'), the greater the force of the cost-push factors. Thus the greater will be the degree of unemployment induced by global policies which attempt to offset the upward push on the price level, and the more reliance will have to be placed on the psychological shock-effects of credit policy and on rationing by private bankers. Once the systematic operation of the price system as a selector between investment projects disappears, the justification of the claim that monetary policy automatically secures an optimal

[13] This was the conclusion of the Staff Report of the Joint Economic Committee of the United States Congress.

[14] *Mediterranean Development Project, Interim Report*, FAO, Rome, 1957, chapter three, reprinted in this volume, Section Five, Chapter Twelve.

factor allocation is no longer valid. No one could claim that bankers in the milieu of an underdeveloped country will act on the basis of long-run social considerations. To summarize, the greater the distortions, the less optimal and the more haphazard will be the working of the capital market and of the price system.

CHAPTER TWO

The Mechanism of Neo-Imperialism

THE ECONOMIC IMPACT OF MONETARY AND COMMERCIAL INSTITUTIONS IN AFRICA

Since their liberation from colonial rule most African territories have made accelerated progress. This has happened despite the loss of experienced administrators and technical experts in all fields through the rapid Africanization of public services. The development must also be seen against a background of a systematically damaging impact on the terms of trade of African territories of the development of the world economy in the 1950's. The return to the use of monetary controls and the trend towards convertibility and non-discrimination have undoubtedly retarded growth in markets important to Africa and thus contributed to the depressing effect of monetary policy itself on primary-goods prices. The price of most of Africa's imports – manufactures – has been administered and showed a continuous upward trend during this period.

The record thus seems remarkable and encouraging. It is my view that this acceleration of growth is to some extent exceptional, however, and cannot be relied on to continue. It has been the result of the disappearance of the limitations imposed by the monetary and commercial institutions, arrangements, and policies on the economic evolution of Africa during the colonial period. These were dominated by the relations of African territories with their erstwhile metropolitan countries.

I believe it can be shown that the automatism which evolved represents in itself a severe limitation on the possibility of full development of the weaker partner in the 'colonial pact', even if there is no conscious policy which aims at exploitation for the benefit of the metropolitan area. Beyond this, the philosophy of monetary and fiscal soundness itself represents a further handicap to the weaker

area. If this analysis is correct, two conclusions follow, both unpalatable to current conventional wisdom. The first is that the present upsurge in the ex-colonial areas provides no guarantee of a stable and steady progress in future unless special efforts are made to substitute positive stimuli for the negative ending of colonial limitation. The second is that neo-imperialism does not depend on open political domination. The economic relations of the US to South America are not essentially different from those of Britain to her African colonies. The International Monetary Fund fulfils the role of the colonial administration of enforcing the rules of the game.

The theme is fraught with emotional implications. On the one hand, strenuous efforts are made to underline the exploitative aspects of the colonial subjection. On the other side, the increasing importance of aid, in terms both of technical knowledge and of resources, is stressed, especially contributions to the budgets of African countries, the provision of preferential arrangements in commodity sales, and provision of capital.

THE RISE OF PREFERENTIAL SYSTEMS BEFORE THE WAR

Practically all countries of Africa, both those whose independence dates back a long time and those which have only lately achieved it, belong, or belonged until recently, to monetary and banking systems and commercial areas centred in a highly developed metropolitan country and its institutions.[1] All the modern economic organs in Africa grew up in response to the needs of these metropolitan countries, whose main interest in Africa lay in the supply of food and raw materials from the tropical zone.[2]

There was, until very recently, no autochthonous demand in these areas for modern monetary or economic institutions. Colonial governments were not encouraged to undertake financial operations in the territory for which they were responsible. The large foreign companies operating there had easy access to the capital markets of the metropolis for any financial needs beyond their retained profits.

[1] See my articles 'A Note on the Monetary Controversy in Malaya', *Malayan Economic Review*, 1959; 'Those Sterling Balances', *Venture*, 1954; 'Britain and the Dependent Commonwealth', *New Fabian Colonial Essays*, 1959.

[2] Though the immediate reason for their establishing territorial bases in Africa in the nineteenth century was, in many cases, their effort to curb slave trading.

There was thus nothing to deflect the evolution of the monetary and banking institutions of the periphery from responding almost exclusively to the requirements of the centre.

These requirements could best be satisfied by safeguarding the absolute stability of the colonial monetary unit in terms of the metropolitan currency and by encouraging the establishment of banking institutions which would at all times be safe.

Monetary Stability

The former aim was achieved by the simple expedient of providing for a 100 per cent. cover for the colonial currency. It was immaterial whether the institution in charge was a private bank (as in French Africa) or a currency board (as in British Africa), so long as the assets held against the note issue were metropolitan. In this way, any increase in the currency circulation in the dependent area resulted in a *de facto* loan by it to the metropolis; on the other hand, this arrangement provided an absolute guarantee for the sufficiency of reserves. In a way it reduced the risk of extreme crises. It would incidentally also have prevented conscious policies for economic stabilization and consciously accelerated development in the dependency, if such policies had (or could have) been conceived in this framework before the war.[3]

Banking Services

The second requirement, the provision of reliable banking services, was obtained automatically by encouraging the establishment of large (specialized) banking institutions in the metropolis to handle the commerce of the colonial area. These banks became powerful when banking had become stabilized in the metropolitan area and their policies had become impeccably sound and solid. Their freedom of operation, especially the choice of their investments, was not limited by any regulation such as a *minimum reserve having to be kept in the colonial or peripheral territory*. There was no other agency for handling the slowly emerging domestic savings of these territories at a time when few, if any, liquid assets of the required quality were available in those areas.

[3] It did actually impose limitations to the extension of 'Keynesian' policies in the short period after the war before independence was won.

It was then a matter of natural 'evolution' that the colonial banking system had to a considerable extent to find uses for its deposits in the metropolis. Under the canons of sound banking, however, they had to confine their lending to 'self-liquidating' purposes. In practice, this meant the finance of the foreign trade of the colonial area, of exports of colonial primary produce, and imports of metropolitan manufactures. A large part of total resources was thus necessarily kept in metropolitan 'reserves', i.e. in liquid sterling or franc assets. Thus a further and increasing flow of (in effect, short-term) lending at low rates of interest originated from the periphery (which was so terribly short of capital) to the centre.[4] In some dependent areas (such as the British) where savings banks and postal saving institutions were legally bound to invest in the government securities of the metropolis, there was an additional loss of savings to the dependency.

The export of liquid savings to the metropolitan area, and the consequent reliance of the dependency on the metropolis for long-term capital for development, secured for the banking system of the latter a useful income, while its control over the financial and economic policy of the dependency (already assured by the hold of the metropolitan administration over the colonial government) was further reinforced, and the participation of the ruling financial interests in its administrations obtained. All long-term expenditure for which long-term loans were needed – and the reluctance to increase taxation, and in particular to introduce direct taxation, in practice reduced the possibility of covering capital expenditure out of current budgetary resources – was thus made subject to financial veto.[5] This made any change in policy difficult, for the 'credit-worthiness' of colonial governments became dependent on their strictly abiding by the limitations imposed upon them. If the metropolis offered special facilities for colonial borrowing (e.g. the concession by Britain of trustee status to colonial securities), this grant did not by any means fully offset the gains secured to the banking system and the capital market by the special relationship.

The provision of cheap facilities for the finance of foreign trade

[4] They were used especially before the First World War to finance short-term credits (acceptances). After 1920, they served increasingly as the basis of British long-term lending, first to finance European reconstruction after the First World War, and, after the Second, to prosperous developing areas (South Africa, Australia, etc.). It proved to be an embarrassing change.

[5] The history of the establishment of a central bank in Ceylon is a good illustration of the veto.

while domestic activity was unable to obtain capital at comparable terms distorted the productive structure of the colonial area. The differential ease with which the international movement of goods could obtain finance at world rates of interest further enhanced the supremacy of the merchandising, mining, and plantation operations of large foreign firms, because long-term capital needed for the diversification of the economy and the rise of domestic industry was either not available at all or only on extortionate conditions (see previous chapter).

Automatic Commercial Preference

Thus the divergence in the tropics between private profitability and real social advantage was widened, and the tropical countries' dependence on primary exports was automatically perpetuated. Diversification would have increased productivity and real income. But it was, in the circumstances, practicable only given *positive* economic intervention, and such positive economic intervention for the conscious acceleration of development of the colonial area was not contemplated so long as the territories were not independent. The role of the State was conceived as limited to assuring law and order.

This so-called *pacte colonial*, the exchange of colonial primary produce against metropolitan manufactures and services, was thus in the nineteenth century (in contrast to the eighteenth century) not generally based on explicit restrictive or preferential legislation in favour of the metropolis (the monopoly of French shipping to Algeria and Madagascar represented one of the few exceptions). Over a large part of Africa (e.g. the Congo basin and Morocco) international treaties or agreements enforced free trade, or at least non-discrimination. The free play of the price mechanism (as in the case of the 'independent' countries of Latin America and the Caribbean) was quite sufficient to restrict the less developed countries to a status of permanent economic inferiority. The implicit preference of the colonial adminstrations for the metropolitan products did the rest. Their orders on public and private account – and these represented a large portion of the total money demand of the colonial area – flowed in the main toward the metropolis.

As this went on and international industrial competition became more acute, these rather informal relationships were increasingly reinforced by preference conceded explicitly in formal legal arrangements.

Even before the war, the British Imperial Preference and the French Customs Union brought about a closer integration in those areas in which international treaties did not prescribe free trade or non-discrimination. They were to be reinforced by quantitative restrictions and exchange control. All these arrangements on the whole secured greater advantages to the metropolitan areas than to the periphery, because the preference granted to the primary produce of the latter was, without quantitative regulation, often ineffectual.[6] The currency disturbances of the inter-war period, during which the dependencies had no option but to share the monetary fate of the dominant country – which meant that the risk of exchange fluctuation was eliminated in the relation of the centre to the periphery – acted as a further bond of some importance. The metropolis continued to secure a large, often overwhelming, share in both the exports and imports of the colonies.

THE IMPACT OF WAR ECONOMIES: THE RISE OF EXCHANGE AREAS

The war brought fundamental changes, not merely in the economic relations of the metropolis to the dependencies but also in the attitude of the colonial administrations to economic problems. The economic relationship between the metropolis and the periphery was strengthened, while the responsibility of the metropolis for fostering political and economic development became more and more recognized. The fact that the emergent political leaders of the dependencies obtained an increasingly influential voice in the administration of the African territories explains to a large extent, though perhaps not wholly, the recognition of the view that the conscious fostering of economic and social development represents one of the most important functions of the State.

At the same time, the net effect of the change cannot unequivocally be said to have favoured the rapid growth of the dependencies. Even the profound change in the relationship between the prices of primary produce and manufactures which took place during the war and persisted well into the post-war period was insufficient to break the vicious circle of poverty. It is the contrast between the change in

[6] The export capacity of the areas entitled to Imperial Preference was in excess of metropolitan import requirements except in the case of a few products, e.g. oil-seeds and tobacco.

government attitude and the improvement of the resources at the disposal of the African territories and the relatively unsatisfactory degree of progress that asks for an explanation.

Already before the war the unrest due to the low prices for colonial primary produce caused by the Great Depression resulted in the appointment of several official committees to inquire into the problem of the marketing of export produce (e.g. the Cocoa Marketing Enquiry). Their reports question for the first time the adequacy and efficacy of a 'free' market in these commodities. They question the assumption that bargains between weak peasants lacking knowledge and capital and the indigenous merchants or the agents of the great metropolitan corporations who purchased the produce of the colonies could be said to be between equal partners. They foreshadow the development of government agencies which, by conscious policy, could secure that balance between the two sides which was supposed to be brought about by the free interplay of market forces in perfect markets.[7]

The outbreak of the war, which disrupted trade in tropical produce, merely occasioned a change which would have come about without it. On the one hand, the market for colonial produce was guaranteed by the metropolitan countries. This undoubtedly conferred a great advantage on the colonial area, if only or mainly in the sense that claims on the metropolis were accumulated which could at some point in the future be made effective. It also served to maintain equity in the distribution of incomes within the colonies which would have been gravely disturbed by a collapse of export prices. At the same time, it might be and has been argued that this guarantee prevented a partial reorientation of colonial production towards food and other products needed in the home market. It is questionable, however, whether in the long run this would have been in the interests of the colonies.

The war brought about another important change on the plane of commercial policy. This was the strong reinforcement of the rudimentary preferential arrangements, the grant of privileged treatment of colonial and metropolitan products respectively in each other's market, by the imposition of *direct controls over imports and over foreign payments*, i.e. payments outside the confines of the group. The *de*

[7] The critics of marketing boards in their argumentation implicitly and illicitly assume that the peasant obtained a 'perfectly competitive price in the "free" system'. This is nonsense.

facto advantage of a stable currency became consciously and powerfully reinforced by explicit regulation. The loose automatic associations between London and the British dependencies, and Paris and the French ones, were transformed into the powerful groupings of the sterling and the franc zone. The reciprocal possibility of obtaining finance between the metropolis and the dependencies created a unique framework for mutual profitable economic development. During this stage of the monetary and commercial development a series of special connections grew up, which made their interdependence far closer and more purposefully contrived than it had been at any time since the middle of the nineteenth century.

The economic significance of these special relationships is difficult to discern. They must not be evaluated singly because they are to a large extent interdependent, and their effect on welfare must be judged as a whole. Efforts on either side to show the effectiveness of policy in lessening inequality and promoting development, by pointing to specific measures (e.g. the guarantee of purchases of colonial produce well above world price levels) are obviously beside the point. Nor must grants for particular projects, however admirable, by the metropolis to the periphery be accepted automatically at their face value. It would have to be shown first that a grant was effectively transferred, i.e. not offset by the automatic working of the monetary mechanism through increasing the liquid reserves of the colony at the centre. Even if effective transfers took place, the indirect effects of this expenditure might result in a net burden to the periphery. The advantage gained by some groups of individuals or firms in the periphery or in the centre might well be more than offset by the disadvantages of others.

The advantages and disadvantages, moreover, might be in causal relation to one another – in other words, either party might be unable or unwilling to grant advantages or suffer disadvantages without some compensation. For instance, it would seem beside the point to argue in favour of 'untied', convertible grants when the balance-of-payments position of the donor countries was such as to make a cut in the grant inevitable if convertibility were insisted upon. The cut might more than offset gains due to the possibility of using 'convertible' money in a third and cheaper market. A detailed evaluation, from the viewpoint of welfare, of the special relationships between the metropolitan areas and their dependencies which have by now emerged into full independence is therefore needed if an adequate

policy for the social and economic development of the areas is to be worked out, and a suitable international commercial framework established.

To this task we now turn.

THE IMPACT OF PREFERENCE AND AID

The preferential treatment accorded to goods and services in intra-group trade may take the form of commercial preferences – commodity-purchase agreements, tariff preferences, administrative (quota) preferences – or of a discriminatory application of monetary controls. Of the various types of commercial preferences the first was the most important to the dependent or erstwhile dependent area, and the second to the metropolitan areas. The monetary arrangements seem to have worked largely in the interest of the metropolitan areas (or, rather, certain groups in those countries) and had the result of diminishing the contribution provided for the periphery in terms of resources and technical knowledge. It should be added, however, that in certain cases the net advantage to the metropolitan area would arise not so much through price relationships as through the fact that the periphery was for one reason or another unable to make full use of the purchasing power which resulted from its export sales or which was put at its disposal in other ways.

Commodity Agreements

Commodity agreements provide for the purchase of unlimited or of specified quantities of the African territories' produce. The former type was general during the war. As wartime scarcities lessened and the terms of trade moved against the primary-producing areas limitation on quantity became the rule.

In the *British* territories, the wartime system was continued in the immediate post-war period of shortages. After 1950 – and indeed already under the Labour Government – they were first attenuated and their duration shortened, and then purchase at current market price was agreed to. After 1951, most bulk purchase was discontinued. Among the exceptions, the Imperial Sugar Agreement, the most notable, did not affect Africa substantially.

The post-war bulk-purchase agreements seem to have generally

worked to the disadvantage of the African colonies inasmuch that in a period of a rising trend of prices long-term purchases in practice proved to be made below current prices on the world markets.[8] Two things need to be said in this context, however. The first is that the relation of prices to the so-called 'world price' is by itself insufficient as a criterion for determining the welfare effects of such agreements; 'world prices' are not independent of the existence of the agreement itself. One of the effects of the agreement might be a benefit far beyond the direct advantage or disadvantage experienced on the sale to the metropolitan country.[9] Nor must the security of market given by bulk purchases be disregarded.

What might be said to have been really objectionable in British policy from a welfare point of view was the decision to abandon bulk purchase at the precise moment when the world trend of primary prices (and terms of trade with manufacturers) turned and when the countries of Africa would have benefited by, and had a strong case for, the continuation of purchases.

In the *French* territories, the provision of preferential markets through quota regulation of the metropolitan market and price guarantees still plays a very important part in the marketing of coffee and groundnuts, and also of cocoa, groundnut oil, palm kernels, and palm oil. Their impact is to increase the income of the periphery and to increase its production of these commodities relative to the production capacity of the world as a whole. It should be noted, however (and this qualification is habitually omitted in most treatments of this question), that this relative 'distortion' of the productive structure might in fact not be so significant, because the innate potentialities of the periphery might be much greater than the actual production, because of ignorance or inertia for instance, so that 'artificially' high prices might just achieve what would be achieved automatically by the influence of a better working price mechanism on more knowledgeable producers. This consideration suggests that it is conceivable

[8] See the interesting analysis made by ECE in the *Economic Survey of Europe in 1948*, Geneva, 1949.

[9] This is a significant consideration for the future, e.g. when considering the effects of bulk purchase by the Soviet Union on the world price of surpluses and commodities. If Soviet purchases push up 'free' world prices sufficiently for African countries to obtain the same income from sales of smaller quantities to other countries, they will represent a net benefit. Thus the fact that the Russians may have bought the commodities at less than the world price ruling *after* the agreement cannot be said to prove that they have exploited the African areas.

that the discontinuance of the provision of preferential markets will *not* have a net discouraging effect on production, because it is quite likely that technical progress will be stimulated by the ending or modification of the favourable commodity agreements, especially as this coincides with greater activity by FEDOM[10] and other 'European' funds[11] and the international agencies to channel technical knowledge to Africa.

Duties and Quantitative Controls

The impact of reciprocal *preferential tariffs* seems to have been more effective in securing advantages for the metropolitan country than for the periphery. This follows partly from the fact that the tariffs in force for food and raw materials in the metropolitan area (even in France) were rather moderate and partly (especially in the case of the British territories) because in the case of a number of commodities the metropolitan countries were unable to absorb the whole of the export surplus of the periphery. As the exports were homogeneous this meant that the preference became inoperative. The preference granted on manufactures was substantial in a number of areas and it was also effective.

So far as *quantitative regulations are concerned*, their impact worked more evenly in the British zone until the acceptance by Britain of the GATT principles of non-discrimination reduced the advantages of the periphery. In the French territories, the primary producers continued to enjoy advantages from the discriminatory restriction of imports from outside areas, coupled with price guarantees. Their effect on welfare was offset, and perhaps more than offset, by the discriminatory import controls in the African territories on non-French manufactures. As we shall see (pp. 42–5), the problem resolves itself mainly into one of income redistribution between the various classes in both the metropolitan and the peripheral area.

Monetary and Exchange Policy

Discriminatory exchange control reinforced the effect on the pattern of commerce of quantitative import regulations. The ease with which

[10] 'European Fund for Overseas Development'.
[11] On the impact of the new arrangements, see my article 'Africa and the Common Market', *Journal of Common Market Studies*, 1962.

payment could be made and finance secured obviously contributed to the strengthening of intra-group trade even where price relationships were not as favourable as they would have been with other parties. More important than this immediate effect on trade was the impact of exchange restrictions in the financial sphere.

Capital movements. Historically, the essence of the functioning of currency areas has been the unlimited freedom of capital movements. This is not necessarily a condition of a functioning of currency areas. Both Australia and India have instituted strict controls on capital, even for transfers within the currency area in which they belong. It certainly has been a feature, until recently, of the relations of both the franc zone and the sterling area.[12]

It is obvious that a discriminatory ease of capital transfers from the metropolitan area to the periphery would encourage investment there, even if this were not as profitable as investment elsewhere. The assurance of being able to repatriate purchasing power would be an additional incentive. This may well be reinforced by the advantages secured to these investments by the commercial preference systems discussed above. It should be noted, however, that by and large the establishment of new large-scale productive units was encouraged more *in the centre*[13] than in the periphery and that it would be impossible to assert that the latter did not suffer a relative disadvantage in consequence.

In recent years, with the accelerated movement towards independence, it seems likely that the freedom of capital movement on private account predominantly favoured the centre rather than the periphery. The capital flow was dictated not so much by normal profit incentives as by precautionary motives, i.e. capital was repatriated to the metropolis. This certainly seems to have been the case in the franc zone, but it probably played some part in the sterling area too.[14] The resultant weakening of the periphery is obvious. It must not, however, be judged without reference to another feature of the functioning of these economic groupings, the grant of aid in terms of loans or outright contributions from the centre to the periphery (see p. 43).

[12] Great protests were encountered by the governments of Ghana and British Guiana when they introduced control on capital flight.

[13] Or in other highly developed parts of the currency area. In the case of the sterling area, it was South Africa and Australia which mainly benefited.

[14] Some of the unexplained credit items of the British balance of payments might well be connected with this capital repatriation.

The monetary and fiscal policy of the colonial areas continued to be dominated by Victorian canons. The plans prepared – especially in the British territories[15] – were little more than a haphazard collection of departmental investment projects unconnected with one another and decided upon without any analysis of their general economic effects. The reserves which were accumulating were kept in separate accounts in the metropolitan centre and thus could not be pooled for an imaginative use for general development. Balanced budgets and conservative finance, the use of only long-term capital for long-term investment, remained the watchword of the administrations. Even when central banks were established, against rugged opposition by the metropolis, their powers remained sharply limited. No conscious anti-cyclical policies were conceived of for these areas, even after the victory of Keynesian techniques in the metropolis. To some extent this was due to the complete failure to recruit a new type of personnel to devise and execute policy.

Exchange Rates

The rates of exchange fixed for the African countries, and especially those in the franc zone, had important effects on the relations of Africans to the metropolitan areas.

So far as the *British territories* are concerned, the problem was dominated and modified by the policy of the marketing boards, which paid less than the world market price to the farmers, thus limiting the incomes in the African territories and, until after independence, steadily accumulating rather large nest eggs whose real value has been steadily declining.[16] The fact that the British-African currencies were devalued together with sterling in 1939 and again in 1949 though their balances of payments were showing surpluses may have further slightly worsened the terms of trade of the African countries in comparison to their competitors in, say, Latin America. The policy pursued would have been indefensible had it not happened just before

[15] Planning became respectable at a much earlier date in France as a result of the activity of the *Commissariat du Plan*. Young economists and planners were made available to colonial administrations much sooner and in considerable numbers. The British administrations did not encourage such extravagance.

[16] The Ghana Government complained that the sterling value of the assets purchased also declined by £15m. The loss in real terms must have been far greater, perhaps as high as £60m.

the violent reversal, in 1951, of the postwar improvement in the prices of primary products relative to those of manufactures. Thus the effects of devaluation were completely swamped by the collapse of primary prices. Indeed, the African territories under British control may have benefited by the fact that their currency was at a relatively low level at that critical date, while their price level was not influenced by the boom because of its relatively short duration.

In the case of the *French territories*, the value of the colonial currency was lifted during the postwar monetary vicissitudes of France to a level double that of the metropolitan franc. This decision, together with the structure of commercial relations within the franc area, resulted in a violent upward thrust of domestic prices in terms of dollars, as the price level in the African territory was never revised when shortages became less acute and the colonial franc appreciated. The quantitative control imposed on imports from outside and the preferential relationships which French manufacturers enjoyed within the area prevented the correction of the anomaly and secured exceptional profits to the metropolitan exporters. The producers of those primary products which had preferential markets in France were also shielded from the consequences of the revaluation of the colonial currency on their sale prices. These included the great tribal-feudal-religious chiefs and the metropolitan corporations interested in plantations and ranches. In a number of areas (e.g. Senegal), those who suffered comprised the least privileged part of the population. The policy of high prices (and salaries) also favoured all those whose income and savings accrued in colonial francs but who wanted to spend them in France. Inasmuch as a considerable portion of the money (in contrast to subsistence) incomes in the French area were earned by individuals and firms from France, the high value of the currency tended to enhance the potential claims against these territories on capital account.

Too much, however, must not be made of this, because most of the money incomes provided in the colonies were strongly influenced either by commodity agreements or by direct subsidies granted by France. To that extent the arrangements meant merely that the French consumer of certain colonial produce and the French taxpayer were burdened with the cost of relatively higher payments to French firms trading in Africa and French citizens in the service of the African territories.

Taxes, Subsidies, and Welfare Contributions

Until as late as the last war, it was a general rule in imperial arrangements that the colonies had to 'fend for themselves'. This expression was obviously interpreted by the colonial powers in a rather flexible manner. In the majority of cases, the colonial taxation systems precluded the territory from benefiting from a direct contribution from incomes accruing in the territory to the nationals and firms of the metropolitan area, and this income represented a rather considerable portion of the total monetized and taxable income of the country. Even indirect levies and excise did not discriminate to any extent between essential and non-essential goods. This accentuated the regressive character of colonial taxation which, as a whole, was biased in favour of the nationals of the metropolitan and other highly developed areas. This bias was thought to be needed to attract foreign capital. The conventional view is undoubtedly correct that the activities of foreign, or rather, metropolitan, firms represented an overwhelming proportion of total capital investment in the area, and their activity was the major element in such progress in the areas as was made. Whether they would have curtailed their activity if a different taxation policy had been pursued is another question. A different taxation policy could have increased the pace of the development of technical knowledge and markets, and increased the attractiveness of investment.

The conclusion that the metropolis exploited the colony cannot be substantiated by simply pointing to the fact that they were able to earn large profits which were not taxed to any extent. It might perhaps be fairer to say that the share of profits and salaries going to the metropolis was substantial, and that the latter reaped a greater part of the benefits of the development which it initiated and which would not otherwise have taken place. In the framework of taxation as it was, and with a large supply of labour, the forces of the 'free' market alone would have strongly favoured the productive factor in shortest supply, i.e. capital. These forces were massively supported by the fact that the 'free' market implied a strong *monopoly* economic power buttressed by the political influence of the expatriate individuals and firms. The resultant distribution of income was far more unequal than that in Europe.

The attitude of the metropolitan powers to their dependent territories underwent substantial changes *after the war*. In the British

territories, the Colonial Development and Welfare Act made available grants for capital expenditure on education and other social services, such as health, and also for substructure investment. In the French territories, FIDES, CCFOM (now CCCE and PAC), and lately FEDOM, made grants on an impressive scale. In addition, the French Government defrayed the cost of the metropolitan military personnel and a large proportion of the civil personnel stationed in former French territories, and in certain instances granted direct contributions to the regular budgets of the new countries.

It has been claimed[17] that these grants represent a complete break with the past, an application to the relation of the metropolis to the dependent territories (soon to be granted independence) of the principles of the Welfare State.[18] It would be wrong to discount altogether the importance of the change but its welfare impact can be exaggerated.

In the first place, the grant of these subsidies partly determined the policies of the African countries concerned and deflected them from the courses upon which the countries themselves might have decided. To some extent, therefore, they might be thought to be objectionable from the point of view of the self-determination of the territory concerned. This rather constitutional argument is reinforced by the fact that the foreign grants almost always result in increased expenditure which has to be financed from domestic resources. This is clear in the case of capital grants which imply commitments (as in the case of the British-financed universities) for current and maintenance expenditure outside the scope of the 'welfare' fund. This expenditure might be burdensome and might be for purposes for which resources would not otherwise have been found. In many instances the returns were not commensurate even to the new burden to the country.[19] Moreover, such grants may have general repercussions on the budget and on the distribution of income which might be considered out of keeping with the general situation of the territory.

[17] E.g. Colonial Office White Paper on the *UK Contribution to Development*, Cmnd. 1308 of 1961.

[18] It might be argued, of course, that the sudden willingness of the conservative parties to grant independence ('to preside over the liquidation of Empire') is not unconnected with this new relationship. In fact France refused, at first, to make grants or give technical collaboration to those countries which did not accept a special 'new' political relationship. There was willingness to purchase 'greatness' by continuing grants to the rest.

[19] This has only too often happened in the case of technical assistance.

In the second place, the welfare effects of subsidies or contributions by the metropolitan countries will be strongly influenced if not determined by the geographical distribution of the final expenditure which is undertaken on the basis of these grants. As we have argued above, the very existence of dependent relationships did result in a powerful influence favouring purchases from the metropolitan area. This preferential system has been perpetuated, if not strengthened, by the impact of the system of subsidies. The grants would have been used in the metropolitan country even if currency regulations and other restrictive measures had not meant a very substantial commercial preference between the metropolitan area and the periphery. In addition, capital investment embodied in metropolitan manufactures necessitates purchases for replacement and extension and makes metropolitan goods familiar. Thus, in gauging the net contribution to the recipient countries' welfare of the payments made, the relative terms of trade would also have to be taken into account. These were not favourable to the African countries.

In addition to the assistance or contributions made by the former metropolitan countries, technical and resource contributions were made by the United States of America on a bilateral basis. These were not large but are increasing rapidly. Soviet contributions to African countries south of the Sahara have been restricted to Guinea, Ethiopia, and Ghana. They take the usual form of long-term loans at low rates of interest for capital-development purposes, combined in some cases with bulk-purchase arrangements. It should be noted, however, that in the case of Africa large-scale purchases outside the world market have as yet not been undertaken by Russia, despite the favourable conditions which the fall in primary prices has presented in recent years.

International institutions were less active in the 1950's in Africa than in other continents. The relative insignificance of their contribution is explicable by the fact that few countries in Africa were independent before the 1950's, and the metropolitan countries did not favour their activity in dependent areas. With expanding independence a very rapid increase in the activity of the international institutions has come about. Thus in calculating the net magnitude of the contribution of the metropolitan to the welfare of the African countries account would have to be taken of the aid which these countries could have obtained from outside sources, from which they were

barred while in a dependent status. These must have been very substantial.[20]

Conclusion

In summing up this discussion of the close interrelationship of the now independent African countries with the erstwhile metropolitan countries, two things need to be noted.

The first is the development of their terms of trade, influenced as these were by the special relationships existing and the balance of payments and, more especially, the changes in their reserves held in the metropolitan centre. The impression one obtains is that the *British* territories on the whole have not been able to use fully the favourable opportunities presented in the immediate postwar period of rising prices, though in certain instances purchases from British territories took place at a relatively higher level. In the case of the main export commodities of Africa, however, the bulk-purchase agreements undertaken by Britain in the immediate past were relatively (if to some extent fortuitously) unfavourable to the African dependencies. The African territories, moreover, did not benefit from bulk-purchase agreements in general after the price trend changed in 1952. The *French*-speaking territories, on the contrary, continued to benefit by such agreements. The impression is unmistakable, however, that the quantitative controls did encourage purchases in the metropolitan area even though the metropolitan-area prices were far less favourable to those countries than world prices.

The second criterion is the development of the balance of their payments. In this respect, the *British* territories continuously increased their reserves in the metropolitan country. This meant that the subsidies and loans granted to the dependent areas could not be effectively transferred (even though the areas incurred liability for interest payments in the case of loans). On the other hand, the combined effect of the upward trend in prices and the decline in gilt-edged securities, in which the sterling reserves were partly invested, has severely reduced the real value of the reserves thus acquired. This has necessarily meant a heavy loss to the territories concerned.

So far as the *French*-speaking territories are concerned, a large

[20] In the case of the British territories, it can be argued (*ex-post* at any rate) that those contributions would have been rather higher than the aid effectively obtained from Britain.

portion of the public transfers (in some cases nine-tenths) has been offset by private transfers towards the metropolis. These capital movements were very large in relation to the value of visible trade. Nevertheless, as is shown in the official statistics, the French colonies were at times unable to use the public transfers fully and accumulated unused balances at the Banque de France despite the fact that capital flight from the colonies was very considerable. The effective transfer of capital for use in the colonial area has thus been small.

If account is taken of the opportunities for obtaining capital and aid from sources outside the metropolitan countries, the view that the African territories benefited by this special relationship to the metropolis must be sharply discounted. Even in the post-war period, the net aid reaching them was more than offset by the concessions or special trading relations granted or obtained for metropolitan firms or individuals. The failure of the administrations dominated by the metropolis to use taxation and direct controls to speed development consciously further increased the loss of the dependencies. This perhaps explains how it was possible to accelerate economic progress in a number of areas as soon as independence was gained, despite the loss of experienced administrators and the emergence of depressing political complications.

The implications of this analysis are disturbing. The mechanism of what one might call welfare- or neo-imperialism seems to have artificially restricted the development of colonial areas by preventing viable infant industries from being established. The present surge of activity might simply be the consequence of making up this *artificial backwardness*. Once the obvious manufactured import-substitution has come to an end, Africa might be in danger of a Latin American or Middle Eastern frustration. Unless the vast primitive agricultural sector can be energized into a response, the upward surge will not become cumulative but, as in Latin America and the Middle East, will peter out. There will remain a vast and increasingly dissatisfied ill-employed class in the primitive-subsistence sector confronted with a small privileged class in the cities, unable to provide either supplies or markets for the latter. Only if the rural response were adequate, if productivity and income increased and justified a cumulative increase in industry, could a self-sustaining upward spiral be confidently expected. This has not happened yet, and some of the development plans, with their neglect of agriculture and rural technical education, seem to be disquietingly inept for the exacting task in hand.

CHAPTER THREE

The Consumer and Economic Development

All the best economic textbooks and speeches by the heads of international banks and agencies begin with an appealing reference to that shadowy if convenient concept of the average, yet sovereign, consumer. There he stands, steadfast among millions of temptations, surrounded by a host of goods and services from among which to choose. He is alert, and quite determined. He does not look round to see what the Joneses do; his tastes are all his own. The only pointer he looks for is prices. He reacts instantly and intensely even to their smallest alteration, and he is an expert buyer with a quivering knowledge of the last advantage to be squeezed from every deal. It is his buying which rules the economic system. Through the elastic sway of his favours, new firms spring into being and old ones are instantly eliminated. In this way, what he wants is produced when he wants it and as he wants it. A perfect balance reigns.

This concept of the sovereign buyer and his needs and satisfactions is not in fact a very old one. It had, for example, no place in the common-sense system of the great English Classics. It was developed simultaneously in Switzerland, Austria, and England as late as the early 1870's. Its simultaneous birth in three widely dispersed areas can probably be attributed to the fact that the classical theory based on labour value was leading more and more to unfavourable conclusions about the character and prospects of capitalism, and an urgent need was felt for new reassurance and moral justification. Mill, the greatest exponent of the classical doctrine, was turning towards socialism, and Marx used the orthodox Ricardian system to prove to his own and his disciples' satisfaction the fact that the worker was being deprived by capitalist exploiters of his right to the value he alone created.

The new doctrine contained an element both of optimism and of moral justification of the existing state of affairs. It showed clearly

that with the growth of the stock of capital the share of labour would tend to increase and that nobody got more or less than exactly what he deserved through his contribution to the creation of wealth. Demand and supply were equated at exactly the level at which utility was maximized, and the interaction of prices saw to it that nobody was better off without making somebody else worse off.

Already Unreal

This theory was already unreal at the moment of its formulation. On the one hand, it was clear that it could not defend the private ownership of capital or land; on the other, it was equally clear that consumers did not behave in the way assumed. Consumption was not, as it may have been in earlier periods, the expression of the needs and tastes of the individual. There was a conspicuous competitive element in it which, as the career of Lord Duveen, the most successful art dealer of his time, showed, could be stimulated and played upon to make profit for others. This was clearly recognized by the only wholly American sociological economist, Thorstein Veblen, in his theory of the leisured class, and less consciously by those writers early in the nineteenth century who defended the existence of disproportionate accumulation of wealth by reference to the employment it created.

Artificial Needs and Social Balance

As income increases, both these artificial elements become more patently demonstrable. Not only does income become less essential but the immense importance of *maintaining spending* as a means of *retaining stability* in the system increases. The underconsumption theories of capitalist crises, as well as the growing fears of a running-down of the system and of permanent stagnation, derived from this idea. The Keynesian school, which opted for equality in order to diminish savings, and pleaded for State action to offset them by investment or loan expenditure, was the first scientific expression of this trend of thought.

In a recent publication, *The Affluent Society*,[1] Professor Galbraith has, with his usual brilliance, carried the argument a stage further. He follows to its logical conclusion the critique of the American economic system and points to the struggle by producers, growing

[1] 1958.

more and more desperate, to keep the machine moving by creating needs which are expanding far less vigorously than the capacity to meet them. The fickleness of the consumer grows as income and consumption expand, and the effort to interest him has to be pursued with relentless ferocity. The most modern methods of psychology are used in order to discover a chink in the armour he builds up against the blandishments of the advertiser. Failure means lapse from full employment, collapse of profits, and the diminution of the prestige and power of the firms and managers depending on the successful sales of the product. This obsession with production, this drive for a continued increase in productivity, becomes increasingly absurd. As the intimate connection between real needs and production weakens, it is no longer legitimate to accept all production as equally urgently needed. We must look to how the composition of production is determined. References to the 'average consumer's sovereignty' or to the 'consistency of choice' as the final determinant of our productive efforts have become absurd in the present situation. In Galbraith's opinion, the neo-classical analysis based on scarcity and want must in present conditions give the wrong answers:

> 'Keynes did not foresee that the rapid expansion in output which was implicit in his ideas would soon bring us to the time when not total output but its composition would become the critical matter. Had he survived, he would no doubt have been perturbed by the tendency of his followers to concentrate their policy on the single goal of increased output. He did not lack discrimination. But his followers or some of them will almost certainly continue to protect the Keynesian system, with its concentration on aggregate demand and output, from ideas which Keynes might have been disposed to urge. Such is the fate of anyone who becomes a part of the conventional wisdom.'

Nor is this all. The preoccupation with production means the abandonment of a balanced approach to society and its requirements. It prevents the setting aside of sufficient resources for those basic needs of the community which cannot conveniently or possibly be satisfied by the market system. Production capacity is pre-empted for the satisfaction of artificially created wants. The mad rush after production even endangers the safety of the State, because taxation for defence is resented and loan expenditure is regarded as ruinous. It

destroys amenity because the competitive urge does not embrace collective needs such as education, city planning, rural preservation, the creation of a cultural environment – all these go by the board. They do not yield higher saleable production and are thus neglected. At the same time, the affluence of society produces a fundamental change in politics and weakens the chances of resolving problems. The great issues rallying the progressive parties, inequality and insecurity, lose their appeal. Left and Right are confronted and menaced by the same problem – that of assuring price stability without unemployment.

The Consumer and the Manager

Here is, then, a revolutionary analysis of the contemporary economic scene, which Professor Galbraith restricts to the United States and those countries which have been afflicted with affluence leading to growing unbalance and unhappiness. It is obvious that these problems are important not merely for capitalist societies based on private property and private profit. Once the elementary needs of a community are satisfied, they will begin to bother the managers in a socialist State. There, too, members of the most powerful class in society will be confronted with a choice between diminished status for themselves and an increased drive for increased demand. It is by no means certain that responsible control, through the government, will be able to deflect the increasing productivity into the channels which have been intelligently discussed and decided upon by the representatives of the community, including leisure, and not by the interaction between the needs of the manager of any given industry and the gullible public. The fascinating problem will soon arise, as yet undiscussed and probably unrealized, of how to arrange an increase in leisure, an increase in collective consumption, and a relative decrease of private material consumption.

But even if this particular problem arises under socialism, as under private enterprise, there are basic institutional differences which render its solution far more possible than in an individualist system (though by no means necessarily probable). The first of these is that in a socialist economy, or in the public sector of a mixed economy, all enterprises are interconnected by common collective ownership. The shrinkage of any one can be deliberately controlled, and the personnel promoted away into expanding sectors. As there are no shareholders, or rather, as *the* 'shareholder', the State, owns a great many

sectors, both expanding and contracting, no one vested interest will be hurt and, therefore, desperately attempt to protect its interests. But if the managers consider themselves dependent on the success of any particular publicly owned industry, they will be under the very similar temptation to prolong their prosperity by reverting to the advertising game. These temptations need, even in a socialist State, early and forceful checking.

While the drive for greater production in the American form is absurd, it cannot be explained as a consequence of an outdated economic theory, however important that may be as a *rationalization*. It will be continued so long as production is governed by profits and not by needs, and so long as profits do not depend on the satisfaction of needs but on sales. This, as we argued, *may happen* in a socialist country, but it must *necessarily happen* anywhere where the whole productive machine is privately owned and fragmented, and where survival depends on profit. Although large corporations may become increasingly powerful and their interests more diversified, nevertheless it is hardly likely that their interest will be sufficiently widespread for them to be able to disregard a decline in a large part of their activity.

Public Ownership

Public ownership would, to a considerable extent but by no means wholly, eliminate the motive for pushing production for its own sake. It would have another and hardly less important effect. One of the increasingly awkward problems of a private-enterprise, individualistic system – not merely in America but in all other countries, poor or rich – is the growing (and cleverly stimulated) resentment of taxation. This means that collective needs cannot be satisfied, because they depend on taxation. But collective needs for education, for town planning and rural preservation are of increasing importance. And this expansion is vital to meet the challenge of the Communist countries, where collective needs can be met by the profits of State enterprise or the manipulation of prices.

Professor Galbraith hopes that he can eliminate this particular obstacle in the way of social balance in a free-enterprise democratic system by increasing indirect taxes. In this he merely shows himself under the influence of his American environment, in which agitation has been directed almost exclusively against direct taxation. But in

countries where a greater proportion of the revenue is obtained through indirect taxation, we have seen that large corporations wishing to push their own product inflame their customers against government policy by indicating how much tax there is in the total price, and encouraging the consumer 'to write to his Congressman', i.e. to put pressure on the government to cut the indirect tax. Even general sales taxes have not been exempt from this agitation.

Collective Consumption

The difficulty of obtaining means for collective consumption without taxation can only be solved when the public sector becomes large and prosperous enough to be able to shoulder an increasing part of the finance of what might be called 'amenity investments', while at the same time meeting its own needs for maintenance and expansion. It seems clear to me that balanced progress and stability cannot be achieved without conscious direct controls, and especially without a conscious income-distribution policy and a considerable extension of the public sector.

The whole theory of consumer demand is quite inapplicable to poor but quickly developing countries; it is inapplicable because neither needs nor tastes can be assumed as 'given'. The concentration on the consumer's sovereignty is not less irrelevant, as Professor Galbraith seems to think, but more irrelevant in that situation than in an affluent society. Indeed, it is in a poor but rapidly progressing society that the classical tenets apply least. The problem of the social cost of change can be disregarded in such a society only at much greater risk than in a rich and integrated one. Obsession with 'freedom for market forces' would cause far greater distortion and far greater waste of effort, with far more ferociously unjust consequences, than in a rich country. Indeed, it might well imperil the whole development programme. After all, in these countries, development is superimposed on a mainly feudal system of land tenure and agriculture in which the discrepancy between the wealthy and the poor is far more enormous, and where the conspicuous consumption of the former means an immediate impact on and weakening of the balance of payments, as the luxury goods which confer most prestige need to be imported.

Administrative Manpower

Some people thought that all this could be remedied by fiscal measures, by a complicated system of taxation. I was always sceptical about this attitude, partly because it implied a disproportionate absorption of scarce skilled administrative manpower on a negative task, to enforce the tax laws. I was also sceptical because of the severe disincentive effect if luxury goods are taxed, and not entirely prohibited. I think it is easier to force people to save and invest by restricting the opportunities for spending than by taxing. My fears have, I think, been justified in the event.

I still feel that unnecessary social exacerbation could be eliminated, and imitative competitive spending absorbing scarce resources prevented, if the import, and home production, of certain luxury consumer goods, especially durables, were altogether prohibited. If conspicuous consumption exhausted itself in domestic service and consumer goods produced by handicraft workers – whose production cannot be exported, and who are no better suited for employment in public works or in newly created industries than people wholly unemployed – it could be regarded as innocuous. It is true in strict logic that the increase in consumption of these artisans and domestic servants, who do not contribute to investment, detracts from total investment capacity. But strict logic might not be sense. It might well be the case that the incentive effect of the large consumption of the managerial class that is then permitted might be greater than the limiting effect of absorbing scarce food and clothing. An attempt at too rigorous a scaling-down of the consumption of everybody might in the end fail to yield positive results. Even if one held that those incentives which imply direct imports might be considered as not permissible, one might legitimately concede that the drive towards equality can go too far.

There is a second, and perhaps equally important, reason for a poorer country in the middle of rapid development controlling the pattern of imports and especially production for consumption. Tastes in these circumstances change quickly, and income and production might be expected to expand rapidly. The free sway of privately stimulated choice would, therefore, bring about the premature introduction of new consumer industries on too small a scale and thus lead to complete mis-investment from a long-run point of view. If a new production starts when there is a limited market, it will start

on the wrong scale, and an eventual rationalization and the introduction of competitive productive units might be, if not impossible, extremely difficult. Under these conditions, the country would be condemned to the wrong-sized industry, to having an oligopolistic coexistence of a number of wrong-sized units all too ineffectual to be able to export.

If the establishment of industries were to be arranged consciously at a point when the scale of production to be started was more or less in harmony with the higher productivity which is eventually aimed at, the industrial competitive power of a poorer country might be revolutionized within a short period. It was fortunate from this point of view that textile industries have a relatively small optimum size. Otherwise, Japan and India might not have been able to compete, even on the basis of lower, starvation wages. This, unfortunately, is not the case with the industries of the future, heavy engineering, steel, electrical, and the like. The fact that the Chinese motor-vehicle industry, established by the Russians, is on a vastly larger scale than that in India, is as ominous a feature from the point of view of eventual competitive power as the great leap forward of Chinese agriculture, which has been accomplished by the tremendous compulsory effort towards co-operative investment. Quick achievement depends upon careful and deliberate planning of new products, and not upon their haphazard inception in accordance with the whims induced by foreign examples.

Consumption and Investment

Last, but perhaps most important, in the absence of direct controls, reliance on the market will render the direct mobilization of resources impracticable. The large rural and even urban sector of the community that has been and still is suffering from unemployment or underemployment, always contained for poor countries a tantalizing potentiality for expansion. Yet mobilization for investment purposes was prevented by two seemingly insuperable obstacles. The increase in employment, consequent upon additional investment, increased the consumption both of the newly employed and of their families. The newly employed had to be paid, and the family which hitherto maintained him not only did not release the food but even increased its consumption. Moreover, an increase in wages of the already employed could not be prevented. The increase in total consumption

turned the terms of trade in favour of the peasant and thus further increased his consumption. This, in its turn, limited deliveries to the towns by the rural areas and further accelerated wage demands. The consequential inflation necessarily endangered the investment process, because the increasing consumption prematurely pre-empted all resources available.

Self-help

The underdeveloped areas must do everything possible to help themselves in order to be able to match, without violent totalitarian methods, the efforts and achievements of the Communist countries. Imports and production must be rationally and directly controlled. The exclusive concentration on highly elaborate machinery must be abandoned. There are some tasks for which high-powered machines are needed but, as the Chinese example shows, immense results can be obtained by the mobilization of idle manpower, without much capital equipment.

For a democratic country even to contemplate such a task a tremendous and conscious educative effort is the most imperative condition; only enlightenment and the conviction that the long-run interests *of all* demand sacrifices *by all*, would be able to stimulate on a voluntary basis what in China is 'organized' collectively.

Finally, powerful incentives must be given to ensure that the organization of co-operatives in the rural areas is rapidly extended, and so to prevent the scattered landownership from impeding the introduction of decisively improved agricultural techniques. In this respect, the Egyptian example shows that much can be done which will be voluntarily accepted, provided a lead is given. Mere compulsion will not work, as the Russian failure to increase agricultural production has demonstrated. Subsidies and taxes in appropriate doses might smooth the way if a really intense campaign is to be successful. Above all, however, both the rich and the poor countries of the non-Communist world must realize the terrible urgency of rapid development away from peasant production and towards the establishment of modern industry and agriculture, if convulsions, and a possible catastrophe, are to be avoided.

Section Two

TRANSFORMING PRIMITIVE AGRICULTURE

CHAPTER FOUR

Agricultural and Economic Development

LINKED PUBLIC WORKS

Even the most recent schemes or theoretical models of economic development tend to be based on the twin assumptions that the productivity of agriculture cannot be increased except by investment using resources obtained from outside, and inversely, that the pace of industrialization is in some sense dependent on the extent to which supplies can be extracted from agriculture and the agricultural population, helped only by this 'outside' investment.

Agriculture in most of the poor countries is notoriously sluggish if not completely stagnant. This, indeed, is the main reason for the primeval poverty, as it represents the greater part – up to 80–85 per cent. – of employment. The standard of life of the peasant is near or at starvation levels. There is thus, in this view, a double limitation on the pace of development, especially in democratic countries, which, unlike the totalitarian systems, cannot exact the means of development from a poverty-stricken peasant.

A drastic reform of taxation of the well-to-do urban classes is held to be one of the ways, if not the sole way, in which the deadlock could be broken.[1] This is, however, politically difficult in countries where political power is dependent on electoral success, unless all-party agreement can be reached. The consequent failure is said to explain the ill-success in most underdeveloped areas of the world in starting a self-sustained growth embracing the whole of the economy and not merely some small sector, in which foreign capitalists are interested for the sake of supplying foreign markets.

I shall try to show that neither of these assumptions is correct and that, therefore, a great deal of the theoretical work which proceeds

[1] See for example, the 'Introduction' of the report, by Mr N. Kaldor, on Indian tax reform, p. 1.

from them will lead to conclusions which might be inimical to the most effective mobilization of the potential economic power of underdeveloped areas outside the Soviet orbit.

The most important brake and limit on the potential expansion of productive activity in underdeveloped areas is represented by the defective operational framework of agriculture.[2] With few exceptions, represented by a few imaginative landlords in Spain and some of the French settlers in North Africa, and a few, often foreign, enterprises in other countries, land, whether held in vast latifundia or broken small-holdings, is incapable of giving adequate returns.

The insufficiency of the agricultural framework may be due to a number of reasons and take various forms. Models of, or plans for, economic growth which do not take due account of the existence of these hindrances to economic development are likely to go awry even if, in Keynesian terms, 'savings' (including taxation) and investment seem to balance. *Institutional reforms* eliminating these hindrances, or at least modifying and improving the defective agricultural framework, and *direct controls* which can discriminatingly deal with certain acute bottlenecks, without having to cut income, would seem indispensable.

The great dormant potentialities of these improvements should be emphasized: they probably represent by far the most hopeful avenue of development, both in respect to the utilization of the vast idle manpower of all these countries and also as one of the most fruitful and productive ways of employing scarce capital resources. They are well demonstrated by the amazing achievements of the Yugoslav State farms, based on relatively small expenditure of capital in terms of technical knowledge, implements, seed, and fertilizers. Nothing could be more promising than the fact that these farms were, in relative terms, *more* successful in resisting bad, than in making use of good, weather. The contrast with the productive performance of individual small-holding peasants is painful.

In the case of the vast feudal or tribal landholdings exemplified from Spain and Morocco to Iraq, Persia, or even farther east, landowners have no interest in improving the land. Their interest is to be able to derive an income with as little trouble from, and subject to as little fraud by, their tenants or farm workers as possible. Thus, in a large part of the Afro-Eurasian area, as well as of South America,

[2] See *Mediterranean Development Project*, FAO. Rome, 1959.

there is a heavy concentration on crops or animals needing relatively little supervision and enabling the holder to absent himself for the maximum of time. This is so whether the owner works his estate with farm workers or lets it out in small fractional units to sharecroppers. The political desire to keep the peasantry from becoming too knowledgeable contributes to the stability of this anachronistic set-up. As Professor Dumont has conclusively demonstrated,[3] in these cases land reform dividing the vast estates, far from being merely a welfare measure, is necessary from a *purely economic point of view* in order to create incentive to land improvement and more intensive cultivation on the small area which remains to the estate owner, who will want to retain his accustomed standards. The organization of the surrendered area into viable units will present problems in some cases. One possible solution could be found in the formation of compulsory co-operatives on the model of the Gezira scheme, with a closely supervised system of cropping and cultivation pattern. This has been the policy followed by Egypt. The success will, as in the Gezira, depend on the training of adequate technical supervisory staffs and on obtaining willing co-operation from the peasants.

In a number of areas, the latifundist does not himself work his land. He lets it out at varying – mostly extortionate – terms, terms which have steadily worsened against the peasants as the pressure on land increased with growing numbers. Thus the large ownership unit is *de facto* already broken up into small operational units. Iraq before the recent revolution was a particularly crass example of this type of land tenure. Neither the landlord nor the peasant has much incentive to improve agricultural productivity, though the basic unified ownership would permit the introduction of large-scale intensive production-methods. This is prevented by the fact that the owner is content with his income, the magnitude of which depends not on efficiency but on inequality of ownership. In these cases again, the maintenance of the traditional system of land tenure, and its very inequality, is the main obstacle to full mobilization of resources.[4]

In those areas where estates are broken into small-holdings – among which India presents an especially difficult case – the problem is even harder to solve. The operational unit is unfit for much improvement in the technique of exploitation. The partitioning of

[3] *Terres Vivantes*, Plon, 1961.

[4] Traditionally 'Western' economists seem to equate inequality and growth. See, for example, Professor Kindleberger's *Economic Development*, p. 225.

ownership hinders improvements, as single owners are incapable of dealing with technical problems such as irrigation or drainage. The elimination of the larger feudal landlords left in being a vast agglomeration of smaller landlords, or even hierarchy of landlords, often absentee. These 'landlords' or lease-owners, or even the owners of the 'superior' rights, might themselves be miserably poor.[5] Their ownership rights, together with social tradition (connected with religion), magnify the operational defects of the system. The existence of a large licensed and subsidized class of leisured poor, prevented by status or caste considerations from working, renders economic mobilization difficult. The great number of these 'landlords-merchants-moneylenders' confers upon them an important voting power in a democratic system, magnified by their oppressive influence on the lower strata of the village society. It is this system of land tenure and traditional behaviour which creates underemployment.

Finally, it should be added that in the absence of a large-scale reorganization, piecemeal attempts at improvement might not merely not be effective but actually do more harm than good. Thus irrigation without drainage in very large parts of the Eurasian continent poisons the soil by salting; the provision of fertilizers without water and drainage might result in a total failure of crops through burning, while some poor crops might survive without fertilizers even under the same conditions. The peasants' resistance to new techniques is therefore not as irrational as is often thought.

Due to these deeply imbedded impediments arising out of the traditional system of land tenure and social arrangements, there is an immense amount of underemployment. It does not seem exaggerated to claim that success in planning development for self-sustaining economic growth will mainly depend on the success achieved in mobilizing this reserve – practically the sole hidden asset of most underdeveloped areas. Given the overwhelming numerical preponderance of the agricultural sector in the whole economy of these countries, a decisive increase in its productivity could make all the difference. A failure in this sector would condemn the greatest suc-

[5] See V. M. Dandekar and G. J. Khudanpur, *Working of Bombay Tenancy Act, 1948*, Gokhale Institute, Poona, 1957. Their social superiority, however, has prevented effective land reform. Often they were able to get their tenants to renounce the new rights conferred on the cultivators. They frequently combine the function of landlord, merchant, and moneylender and exact an extortionate price for each.

cess on the industrial front alone to relative ineffectiveness for long periods, as in Soviet Russia, in lifting average productivity and thus the standard of life. Foreign aid, invaluable as it may be, is no substitute for such effective mobilization. Indeed its value might mainly consist in permitting this mobilization to take effect over time, thus reducing the scope and severity of the compulsive measures needed for any given achievement.

The magnitude of the possible effect of a successful mobilization of idle manpower has been consistently underestimated. This failure of appreciation has been mainly due to the assumptions about the shape which development programmes ought to take. It has been implicitly assumed that development would, in the main, have to take the form of industrial growth absorbing the unemployed or underemployed of the rural areas, of a removal of surplus labour from the land. Elaborate calculations have been made, therefore, to determine how much 'true' underemployment existed. This was defined as that part of the labour force the removal of which would not affect output. As primitive agriculture is highly seasonal in character, this severely limits the availability of labour. In the context in which some of these calculations were made (e.g. Professor Rosenstein-Roden, for Southern Italy), these assumptions were legitimate. Certainly, a reduction in the absolute numbers on the land, and not merely their proportion in total employment, is an essential part of the effort to increase national income. What is more justified is to assume that this is to be the main or sole means of rural improvement. Two considerations especially have been, I think, consistently neglected in shaping these programmes.[6]

The first is that the demand for labour in modernized agriculture based on irrigation increases very rapidly, while even after the removal of the 'true underemployed' the seasonal character of the traditional methods of agriculture would leave unemployment which can be estimated at between one-third and one-half of the remaining labour force. Thus productivity in agriculture would still remain so low and so inflexible as to render any development planning difficult, if not hopeless, because of the potential inflationary threat if a programme of expansion is superimposed on this type of economic system.

[6] This neglect, however, has not been permitted to mar the programmes elaborated for the Mediterranean countries by FAO. See *Mediterranean Development Project, Interim Report*, FAO, Rome, 1957; *Final Report*, 1959.

The second consideration is that agriculture presented at one and the same time not merely an investment opportunity with exceedingly high marginal productivity, which was not utilized only because of the structural and institutional impediments to development, but one which could use manpower for intensive methods of construction. Thus there was here a chance for the seasonal utilization of unemployed rural labour, the only reserve and, at the same time, the greatest curse of underemployed areas. In this way, fuller employment could be attained without incurring the extra cost of transportation and the necessary urban rehousing investment which is so great an obstacle to national economic planning in these areas. At the same time, the capital investment in dams, irrigation canals, drainage, and roads would increase permanent employment opportunities and productivity.

The problem was exhaustively discussed in the *Interim Report* of the FAO *Mediterranean Development Project.*[7] We concluded there that development planning would have to base itself on creating in strategic sectors a 'creative' unbalance, a new level of demand, while at the same time widening the basic bottleneck of agricultural production.[8] In peasant, and even more in tribal, societies it is difficult to introduce far-reaching changes on a voluntary basis of popular

[7] Op. cit. Prepared by a team headed by myself. I must acknowledge my indebtedness especially to Mr Ergas, Mr Holland, and Professor Nagi. Paras. 111–12, 118–24. The strategy of purposive unbalance has since received impressive support. See pp. 213–20 of the present volume.

[8] An alternative has been elaborated by Mr Sushil Dey,when Development Commissioner in Western Bengal (see his book *Industrial Development – A New Approach*, Calcutta, 1955). It had striking success in the province so long as it was pressed energetically (see *The Village Exchange – A Programme for Industrial Extension in Western Bengal by the Development Department of the Government of West Bengal*, Calcutta, 1954). This approach encourages production by the villagers of food and simple handicraft products for exchange through special village centres. In this way additional products are created beyond the level which the village could buy from the organized market sector. The saving in purchases from the town was to be used for the purchase of capital goods. The scheme has been likened to the combination of discrimination, internal liberalization and aid which was adopted by Western Europe after the war to get production going without having to restrict it as a result of inability to balance dollar imports and exports. If pushed with vigour, it might give an invaluable impetus to community developments on a primitive level and thus smooth the path for voluntary popular participation in more elaborate schemes. The difficulty may possibly be in the transition period when peasants have to be persuaded to buy and use modern tools (including fertilizers). Its advantage is that the improvement is simultaneous with, and a consequence of, individual effort. This has great moral impact.

participation, since the benefits of these are not apparent sufficiently soon to make their causal connection unmistakably evident. Yet it is obvious that the only way in which the large mass of idle manpower can effectively be used without scarce and costly implements (or other scarce materials) is agricultural improvement.

The Chinese Communists – unlike the Soviet leaders at the time of the inauguration of the first five-year plan – clearly recognized this fact. After several different starts, which were soon abandoned,[9] their answer was an increasingly wide and tight organization of the peasant masses, first in work teams, subsequently in the so-called communes. These permitted the mobilization of the workless without disrupting their nexus to their localities, which were obliged to continue to maintain them. This performed the vital task of keeping consumption level steady until production had increased. The communes were used for creating, without any modern capital equipment, important capital projects, yielding in most part phenomenal returns, such as dams, irrigation, drainage, canals, non-chemical fertilizer production, and social substructure investment, such as roads, schools, and hospitals, as well as industrial ventures (often of an extravagantly unsuitable type soon to be abandoned).

If we bear in mind that unemployment must have amounted to at least 150 million man years in pre-revolutionary China, the colossal size of the potential capital investment becomes apparent. No doubt a great deal was misdirected. No doubt a lot could have been better allocated, and its effectiveness improved by different techniques. What should be remembered is that it was a *net* addition, *potentially of the order of magnitude of more than a quarter of the national income*, and a large part of it probably with a capital-output ratio possibly as low as 2 or below. The mechanism of the expansion is not difficult to understand. It is dependent on complete ruthlessness and either total compulsion or fanatical enthusiasm. It is, needless to say, also dependent on the absolute liquidation of legal obstacles in the way of the physical reorganization of production, especially the removal of the integument of obsolete land-tenure systems, and all traditional social-behaviour patterns inimical to increases in productivity.

In democratic countries, such direct mobilization of rural manpower is hardly feasible. The only direct compulsion which could be

[9] T. J. Hughes and D. E. T. Luard, *The Economic Development of Communist China 1949–1958*, Oxford, 1959, especially pp. 35–71.

contemplated is general service in the army, or in special labour corps for education, and the undertaking of investment. Even if no money were paid, such organization of labour would disrupt the connection between the individual and his rural base. This means that his maintenance would fall on the State, an appreciable burden which necessarily limits such direct methods outside the village or district framework.

An alternative would be to organize community development on the basis of liability for a number of days' service from which individuals could free themselves by payment of sufficient tax to maintain a worker. In some countries, the introduction of a poll tax might be easier, with the alternative of serving a number of days in work teams.

Beyond such devices to utilize labour service, the mass of the population would have to be provided with appreciable immediate incentives, making them eager to try out new methods of rural organization and production. A drastic reform of obsolete land-tenure systems would also be necessary. As a minimum, the formation of productive co-operatives has to be envisaged. These can, with due compensation, possibly guaranteed by the government, take over rights over land which, in scattered hands, or in the hands of stagnant latifundia owners, prevent a rational solution of technical problems of agricultural production.[10] Fortunately, compensation is not prohibitive, as present landowners' rights are based on (as they are also responsible for) an extraordinarily low production. Rural reorganization might easily enable a doubling, trebling, or more of yields.[11] Thus, it is economically feasible to pay adequate compensation for existing rights without overburdening the State. This should facilitate reform even in the countries where there has been no revolution.

In cases where a once-for-all, large-scale land reform is not possible, an alternative would be[11] to impose a progressive land tax on family holdings. This tax should be based on a (high) average yield in the district according to each class of land (irrigated, dry-farmed, and varying soil structure). This would force the owners of larger holdings to consider whether to improve their farming methods or to sell. The State, through the co-operatives, ought to reserve the right of first refusal to acquire any land sold. This would reduce the mass of land to be dealt with but increase the difficulty of rational land-use

[10] The Third Indian Plan, which came to hand when this had been completed, evisages some such reform.

[11] See *Country Report for Iraq*, FAO, Rome, 1959.

reform, as the co-operative holdings would be scattered and no rational production plan could be imposed.

The organization of co-operatives would enable the rational use of land and water, and the carrying through of infrastructure and agricultural investment. The story of the Gezira scheme shows what can be accomplished through adequate organization, education, and leadership in assimilating scientific methods and obtaining a substantial yield in an originally primitive environment within a relatively short period. The first requirement would be the training of inspectors to take charge of such co-operatives, as it is essential to give a new leadership in the villages, a leadership divorced from existing feudal or tribal restrictiveness. This has been shown to be far less time-consuming or educationally difficult than was thought even a short time ago.[12]

Resistance to innovation has been fierce. It might be overcome if the reorganization itself is made immediately attractive.

Two parallel lines of action would seem to be needed. The first is the organization of marketing boards so as to cut out the usury dealings of merchants. Land reform in a number of Asiatic countries (including some parts of India) came to naught because the landlord-merchant-moneylender remained in effective control of the peasant. As the West African marketing boards have shown, the most important function of a reform of marketing is to enable the peasant to receive something resembling the current consumer price for his produce and not a price distorted by interest deductions or by deductions administered in view of possible seasonal fluctuations. The net effect on consumption of such increase in peasant income would be slight as the landlord-merchant did not save much.

The second line of action is to assure the peasant some immediate increase in his income through the co-operative, but in such a way as to minimize inflationary dangers by increasing production. This could be achieved by *linking public works in infrastructure investment to rural reorganization schemes and by channelling paid employment through the new co-operative organization.* Thus membership of co-operatives could and would be made immediately profitable because

[12] There is little doubt that despite the shocking neglect of agricultural training colleges by the British and even the Indian Government, there is more expertise at hand than is being made use of at present. The professional unemployment acts as a terrible deterrent to progress.

peasants would only receive employment and income if they joined the co-operative.[13]

Most of the *linked public works* could, as in China, represent undertakings which do not need implements or material. The wages need be no more than the *average* income of peasants and landlords from their unreformed holdings. This is of course far below the urban wage rates. This gap is one of the main reasons for the existing maldistribution of resources, causing an overconcentration on primary production by creating a large-scale divergence between social and private cost in industry to the detriment of the terms of trade and the average real productivity of the country.[14] Thus the 'monetary' capital-output ratio in this type of public works would be even more favourable than it would be in 'real social' terms because the money wage cost is far below that ruling in industry. Accordingly, the threat of inflationary consequences would be less.

Another, hardly less important, argument strengthens this conclusion. There is in most of these countries a substantial unused productive capacity for handicraft or primitive industry, the products of which cannot compete qualitatively with large-scale industry. As public works could bring purchasing power to the village population, which is not accustomed to buy high-quality products, it would be fairly simple to divert this purchasing power towards these products.[15] The argument that redistribution of purchasing power inevitably leads to an increase in demand and thus to a worsening of the balance of payments is incorrect in a large number of underdeveloped countries. Not only do the rich not save much, if at all; their demand is concentrated on foreign products and products with high import-content. Redistribution towards the lower-income classes might actually help rather than hinder the achievement of balance-of-payments equilibrium.

Most of these public works can be suitably timed to coincide with the seasonal slack in rural areas. They can, therefore, make use of workers which could not, without costly replacement in terms of machines, be utilized in industrial development. Moreover, the out-

[13] The organization of Egyptian co-operatives in the areas affected by land reform was compulsory. The grant of additional incentives might be wise.

[14] See my article 'Welfare and Freer Trade', *Economic Journal*, 1951, pp. 76–80, and for an estimate of the degree of distortion the two FAO Country Reports on Iraq, Rome, 1957 and 1959, for which I was responsible.

[15] Possibly in conjunction with the village-exchange scheme initiated by Mr S. K. Dey (see note 8).

put created is a net gain in the additional sense that it does not require large and costly additions to urban capital, houses, water, etc. and so on, for its materialization.

A programme of rural works could, moreover, help in redressing the balance in development programmes in favour of giving employment. This is more essential, as it is likely that, mainly because of the balance-of-payments consideration, the non-rural programme will have to be concentrated on basic industries producing intermediate products and capital goods, which, due to technical considerations, are likely to be capital-intensive in the sense of providing relatively few employment opportunities.

Rural reorganization, if linked with public works programmes, might be accepted with less resistance, as it might help with the initial stages by assuring due compensation for old rights. Their being channelled through co-operatives (together with the marginal increase in income) might weaken the stranglehold of tribal or feudal relations which have in the past widely prevented – even in India – the effectiveness of community development schemes.[16] A new source of income placed in the hand of 'outsiders' might – as in the Gezira and in some regions of Egypt – provide that loosening of the impediments to rural reform and progress which is essential if a new deal is to be introduced.

Linked public works programmes can thus fulfil an essential role in a plan for integral development. They could be useful in helping to achieve social change without prior violence and subsequent compulsion. They might speed up development and reduce the danger of eventual failure when foreign aid is diminished. Conversely, they probably represent one of the most effective uses of foreign aid. Together with technical assistance, they might become the main weapon helping to eliminate the formidable food bottleneck which constricts expansion. They might provide the framework in which technical knowledge and administrative capacity can be infused into the countryside. Thus the development impulse given to the original industrial sector might receive an adequate and expansive response instead of either causing inflationary pressure and hoarding or slowly petering out. Given the inevitably accelerating growth of population, they might make the difference between success and failure of efforts to achieve reconstruction without revolution. A failure of rural

[16] See, for example, the *Report of the UN Committee on the Evaluation of Community Development Schemes*, FAO, New York, 1959, IND/31.

reorganization, should Chinese reconstruction succeed, would spell an inevitable victory for the totalitarian approach.

It might be asked why such schemes have not been adopted when their advantages are so obvious. The answer to this question is not difficult. It lies partly in the resistance of vested interests which feel menaced, partly in the shortage of manpower to which leadership could be entrusted. These two factors, however important they may be, do not explain the extent of the failure. This cannot be really understood without realizing that instead of *channelling foreign aid towards co-operatives, and insisting on their accelerated organization, the administrators of foreign aid resolutely set their face against them.*

In some cases, the use of resources derived from foreign aid through co-operatives (especially of bilateral aid) has been prohibited, instead of being made a condition of the grant. This discrimination is presumably due to the fact that the Soviet system also makes use of this form of agricultural organization. The difference in the content is ignored because of the similarity of form, and the resistance of the feudal vested interests, instead of being combated by the foreign experts, is strengthened.

Without radical rethinking of the strategy and tactics of international aid it is difficult to avoid pessimism about the chances of success in promoting self-sustained growth in non-Soviet areas. The use of foreign resources without reorganization would merely raise rural incomes temporarily but (as the case of Iraq prior to 1958 shows) would not generate a multiple expansion of national income.[17] Once disappointment sets in, and the flow of aid diminishes, little permanent improvement would remain from the initial impetus. Change cannot be effected without the wholehearted co-operation of the mass of the rural population.[18] Incidentally, only co-operative organization and marketing could prevent an increase in food production from generating an exactly corresponding income and thus exerting increased demand on productive capacity.[19] There is urgent need for

[17] This has been demonstrated in Iraq, despite the extremely favourable conditions for successful development: abundance of foreign income, water, and land. See Country Report for Iraq, FAO, op. cit.

[18] Thus it would be wrong to think that a diversion of industrial towards agricultural investment without basic reorganization could bring about a radical improvement in production (see, for example, *Report on India's Food Crisis and Steps to Meet It*, Ford Foundation Agricultural Team, 1959).

[19] But see above on the existence of unused productive capacity to meet an increase in demand for simple goods.

a reversal of the opposition by governments in control of aid resources to the formation of co-operatives.

A word needs to be said about proposals which are based on the belief that fiscal measures, a general tax reform, would render more direct reform, especially agricultural reform, unnecessary. In this view, the rate of progress, and even of providing new employment, depends on the 'ability and willingness to tax', which is taken to be synonymous with 'the Government's willingness or ability to redistribute consumption sufficiently in favour of the newly or more intensively employed.'[20]

If this statement of the case means that tax measures of a sufficient harshness must be taken up to a point where a redistribution of consumption is achieved, it is self-evident but not very helpful. If it means that taxes will bring about the required decrease in the consumption of certain goods in scarce supply, instead of causing unemployment among the producers of other, less necessary, articles, it is incorrect. As the bottleneck is food and certain specific products for which the demand is extremely stubborn, taxation might have to be a multiple of the monetary equivalent of the desired specific effect in terms of a redistribution of the consumption of these foods. Nor would it be safe to assume that the displaced producers of the unintended cuts in consumption (e.g. producers of silk saris, or domestic servants) will be readily available for more useful work.

A further objection against attaching an exaggerated importance to the fiscal aspect of the problem of development is that the administration and enforcement of a complex tax reform, including capital, capital-gains, and expenditure taxes, would absorb a great deal of scarce skilled manpower. Damage would be done by diverting entrepreneurial ability and drive from building up new enterprise to tax evasion.

There can be no question whatever that a decisive increase in production would very much facilitate the extraction of additional supplies.[21] The creation of a sufficient collective (budgetary) saving must come as a by-product of the organization of increased production. It is one thing to restrict people's consumption, and quite a

[20] I. M. D. Little, 'The Strategy of Indian Development'. *National Institute Economic Review*, May 1960.

[21] Professor Galbraith's belief to the contrary (*Affluent Society*, pp. 178–9 and 215) contradicts his own basic thesis, which I believe to be correct and important, that utility decreases as available supplies in general increase.

different one to prevent their consumption from rising exactly in proportion to their productivity. This goes for the urban as much as for the rural sector, for rich and poor alike.

In this connection, it should also be remembered that practically the only way in which rural supplies can effectively be mobilized is through co-operatives which organize marketing and can extract the taxes while carrying out these duties. Inasmuch as the cultivators at present are oppressed by extortionate marketing practices, the weight of the taxes might not be felt by them but by the displaced merchants whose activities benefit no one but themselves. Thus tax collection becomes a by-product of the drive for higher production, and skilled administrators are not wasted on purely negative tasks in this vital sector. But unless the formation of co-operatives leads to a substantial increase in production an attempt to use them for taxation would result in a revulsion of feeling which would certainly prevent rapid development without compulsion of the utmost harshness. It explains the tribulations of co-operatives and the hatred with which they are regarded in the Soviet orbit. On the other hand, the Yugoslav co-operative experiments with improved seeds, fertilizers, and cultivation techniques show equally conclusively the scope and rapidity of improvement.

Fortunately – and in complete contrast to the attitude with which the preparation of the second Indian five-year plan was received by the 'Western powers' – both the importance and the extent of the needs of the poor areas, and especially of India, are now fully realized. There is, moreover, a large (and still growing) surplus in the West of practically all those products for which demand might be expected to rise in the intermediate period of reform and reconstruction, prior to the rise in production and the establishment of an effective organization to handle the increase in crops. This, providentially, facilitates the policy of linked works. As rural reorganization would lead to a more rapid increase of output than could otherwise be contemplated, a more rapid use of the foreign food supplies might be permissible. Thus a shock effect might be achieved, tempting rather than coercing peasants and 'landlords' to co-operate.

No illusions must be fostered about the difficulties which would face any government in implementing a programme of organizing a co-operative increase in production through linked public works. Traditional behaviour patterns are stubborn. They are stiffened by

the existence of vested interests desperately anxious to prevent a diminution of their privileges, however miserable the absolute level of existence to which the system condemns even them. What might be claimed is that a 'linked' public works programme might sufficiently diminish the resistance to enable the successful launching of rural reform. Without such reform it is very questionable whether the best efforts on the industrial front will not prove insufficient to bear the increasing burden of a fast-growing population. If persuasion and incentive do not work, compulsion, however repellent, will prove inevitable.

CHAPTER FIVE

Chicago on Agriculture

Review of *Transforming Traditional Agriculture* by T. Schultz, New Haven and London: Yale University Press, 1964

No transforming of Chicago: this is an ill-informed and potentially mischievous book on a subject which is among the most vital and most urgent in the world. It is ill-informed because Professor Schultz ignores literature that is essential if a balanced judgment on the problem of the transformation of primitive peasant agricultural production is to be arrived at, and the basis for effective policy in the largest and most populous parts of the world is to be found. In the index one hunts in vain for Dumont's name, or any of the FAO reports on the Mediterranean and Africa. Eric Jacoby or, in India, the Gokhale Institute team, like Karve or Gadgil and Dandekar, are not mentioned, far less thoroughly discussed. On the other hand, Professor Schultz quotes endless unpublished doctoral dissertations and odd 'mimeos' originating from his own university, and some other institutions strictly in close ideological affinity with it.

It is also an unscientific book. Once more completely ignoring the devastating attack by Professor Samuelson on the 'Chicago twist', he employs the notorious method of stating a hypothesis and then quoting a number of unrelated instances, the detailed characteristics of which are not investigated, as 'compatible' with the hypothesis. The hypothesis then becomes a theory.

His procedure is something like this (names and instances, of course, entirely invented):

Let us take a working hypothesis which is 'scientifically' testable, such as: 'agricultural poverty is due to brown skin and living more than 7,228 ft. 4 in. above sea-level'. Then take one or two unpublished doctoral theses prepared on Schmoller-type historical investigation

but strictly on the basis of neo-classical schedules, for example, say, the investigation of the primitive peasant economy of Machukiwi, in the State of Chiru, Latin America, prepared by a contract promoted by the State Department AID between Università Catolicà in Chiru and the Michigo State University, USA, by Doctors Schreckliches and Schlumpfenschlemmer; then take the Professor Greulliches-Jones team's investigation of Manducat, Asia, undertaken at the behest and with the help of Dufleuve-Demoulins Foundation of Forrest Hills, Indiana, USA. You then find that the facts described, so far as Machukiwi, Latin America, and Manducat, Asia, are concerned, are, as one might have expected, consistent with the hypothesis first stated. A new theorem, to be called the Davenant-Malthus-Schreckliches-Schlumpfenschlemmer-Greulliches-Jones theorem, is then established according to which brown skin and living more than 7,228 ft. 4 in. above sea-level are in fact responsible for poverty.

There is, it seems, no unemployment or underemployment, no dearth of capital, no land-tenure complication to mar the picture. (All misery seems due to the lack of 'new' productive factors.) New techniques are not introduced because they are non-profitable (pp. 80, 86–8, and 163 of the book contain passages analogous to those parodied). But the desperate exploitation, the fudging of the neo-classical price-profit mechanism by the defects due to latifundia and minifundia and usury, all this is dismissed in a few sentences (p. 111). If one finds that in Northern Brazil or in Turkey many people of white or whitish complexion at sea-level also live in penury, this is a puzzle (p. 169) which is left unanswered. Also left unanswered is the question why production functions and the whole gamut of price analysis should be taken as useful tools of analysis when every change in technique is conceived as an introduction of a new factor, and change is continuous. This would mean that every production function of every commodity would have to be changed every moment, as changes of techniques in some part of the world are palpably continuous. But of course Mr Kaldor's brilliant dismissal of this methodological monstrosity in the *Oxford Economic Papers*[1] is not known in Chicago or, if it is known, good care is taken to ignore it, as it is unanswerable.

It is on the basis of this sort of methodology that such 'theorems' are established in a textbook for advanced students sponsored by

[1] February 1962.

Yale University! 'There are comparatively few significant inefficiencies in the allocation of the factors of production in traditional agriculture' (p. 37). 'The price of the sources of income streams from agricultural production is relatively high in traditional agriculture' (p. 84). Professor Schultz then asserts that there is no unemployment and underemployment in primitive agricultural countries by quoting some statistics on the effect of the influenza epidemic on Indian grain output in 1919. The wide divergences between this impact in various provinces – between $-8{\cdot}2$ per cent. and $+4$ per cent. – combined with the margin of error of the statistics (especially after an influenza epidemic), ought to have warned him against making such use of such data. But then Professor Schultz is cautious enough not to deny the palpable existence of unemployment and underemployment directly. He only asserts that there is little evidence of *zero* marginal productivity of labour. The clear implication of this, however, is that Dr Rosenstein and his followers, who thought that only a mobilization of rural labour could lead these countries out of the impasse, were wrong, and little can be achieved by mobilizing rural labour, at any rate in off-peak periods – lasting for the larger part of the year! Efficiency in factor allocation, indeed!

Having sharply differentiated between the Communist 'command' system which tries to transform agriculture by forming large collective farms, where inputs are rationed and 'output is subject to compulsory deliveries' (p. 102) and the market method, he clearly wishes to suggest that the price mechanism cannot be used if the market forces are controlled. He suggests, by allusion, that the land reform will cause fragmentation (p. 111), which is curious in view of the experience of Israel, Egypt, and the Sudan, and that a large size is not necessarily efficient. But there is no discussion of how technical progress is to be made effective if the problem of minifundia is not dealt with by co-operatives and State credit. Yet even he admits that research can only be conducted by the State or other non-profit organizations. He thus concludes:

> (1) Both research and development are, with few exceptions, necessary to adapt known modern agricultural factors to the requirements of poor communities, (2) private firms for profit can as a rule capture only a part of the returns from such research and developmental activities, (3) the size of an efficient research establishment precludes arrangements based on enough firms to assure competi-

tion, and (4) the economic basis of (2) and (3) makes it necessary that public and private nonprofit bodies be organized to perform some of these research and development functions in supplying modern agricultural factors to communities that do not have access to them (pp. 152–3).

One obviously would like to assent to his final conclusion:

> Thus, in sum and substance, the man who is bound by traditional agriculture cannot produce much food no matter how rich the land. Thrift and work are not enough to overcome the niggardliness of this type of agriculture. To produce an abundance of farm products requires that the farmer has access to and has the skill and knowledge to use what science knows about soils, plants, animals, and machines. To command farmers to increase production is doomed to failure even though they have access to knowledge. Instead an approach that provides incentives and rewards to farmers is required. The knowledge that makes the transformation possible is a form of capital which entails investment – investment not only in material inputs in which a part of this knowledge is embedded but importantly also investment in farm people (pp. 205–6).

But then, it is only at the end of the book that he raises the question of the book itself: How is 'investment in farm people' to be initiated? How can peasants in feudal latifundial systems be educated, where liberation is against the interests of the feudal landlords, the money-lenders, and the merchants? Professor Schultz's effort to restrict his analysis to cost-benefit reveals itself at this point at its most ridiculous:

> However, one would expect that farmers who operate large enterprises would actively search for new agricultural factors. There are many farms in parts of South America that certainly qualify in terms of size, but either the farmers are not very successful in the searching they do or they are inactive in this respect, judging from the obsolete traditional factors they employ. *Why they have not done better on this score is a puzzle.* The explanation may be that the costs of adaptation of the new factors have proven to be too high for them (pp. 169–70; my italics).

Too high indeed! It is at this point that we must consider the dangerous political implications of this book. If, in the view of the

dominant US opinion, traditional agriculture is efficient on its own terms, if the small peasant can do nothing because there are 'no cheap sources of income streams', if land tenure is not responsible for the ignorance, impotence, and frustration, if there are no unemployed forces which in off-peak seasons could establish the basis of a modern agriculture, then a violent totalitarian answer will be found to be the only one possible answer. The Chicago approach is the best weapon at Castro's hand to subvert the influence of the United States in Latin America.

POSTSCRIPT TO SECTION TWO

Transforming Primitive Agriculture

The first of the essays in this section is in the main the outcome of my work with FAO on the Mediterranean and Africa, some of the results of which are reprinted in Section Five. When they were written agriculture was (as it still is) not merely the most depressed, but also (which it no longer is – at least theoretically) the most neglected, sector of the less developed world. Attention, ambition, and effort in the undeveloped independent countries was focused with some justification on industrialization, which was and remains the only sure way of escaping from their present state of dependence. The spectacular success of Russia and Japan in emerging as major economic powers and in being able to increase the standard of life of their population (though of course by far less than the increase in their output) contributed to this attitude. Without a simultaneous attack on primitive agriculture, however, this approach disregards the basic social fact that in most of these countries a vast majority of the population would for many scores of years remain in the rural sector. Plans which do not pay due attention to this fact implicitly condemn the vast majority of the population, fast increasing in absolute numbers, to continued horrible misery and squalor.

In Britain and its dependencies, moreover, a rather mystical view was prevalent: that the natural instincts of the poor peasant had

established the best *possible* system of exploitation, given the difficulties connected with, and poverty of, tropical soils and climate. The paternalistic protection of that system was fostered by the preference for indirect rule, which was minimizing resources needed by the Metropolis for establishing and maintaining 'law and order', i.e. the ambience needed for its own enterprises which formed an alien body in the traditional economy. No one seems to have been considering the violent contradition between non-interference in food-growing and nutrition and the complete and conscious transformation of the prospects of the population pressure through hygiene and medicine on the one hand, and the destruction of the traditional ties and institutions through the impact of the highly capitalized extractive and plantation industries on the other. A slide into an ever more acute crisis even in relatively 'underpopulated' areas of the world was a matter of time only.

Such research capacity as was available was – in the British territories – heavily concentrated on export crops of interest to the metropolis, or on pure science, especially in the Universities. In the French territories theoretically more was done to improve the potentialities of the peasant; in practice the accumulating results stuck in the process of communicating with him. In Belgian Congo the great technical achievements of settlements were destroyed by the social implications of the method of control and command adopted. Finally, in the United States technical aid programme, which assumed increasing importance, political reliability was (especially under the Eisenhower regime, under the impact of the MacCarthy scare) equated with a very simple-minded economic orthodoxy based on private enterprise. This orthodoxy is critically examined in the second essay of this section and found completely irrelevant to the solution of the problems of the poor areas. This particular superstition was shared in Britain by comparatively few people who had any serious academic claims – the Royal Commission on East Africa being a conspicuous exception. They had, however, practical political influence out of proportion to their intellectual weight. The Colonial and Commonwealth Offices under both Labour and Conservative reign (not necessarily equal to effective control) seem to have favoured a negative approach to the problems of dependent territories. This attitude understandably met with warm Treasury approval. However irrelevant it was to the problems of development, it had the precious advantage of limiting intellectual responsibility and financial cost.

Thus the use of agricultural development as the fulcrum of general development, the conscious creation of unbalance so as to restore poise at a higher level of production, a conception on which our Mediterranean Interim Report is based, was not so much frowned upon (though *any* conscious action tended to arouse orthodox animosity), as disregarded. If the intellectual position in the dominant countries was unfavourable, the situation in the international agencies was not much more constructive. The FAO under the strong leadership of its present Director General was at that point recovering from its disastrous lack of economic and social philosophy under his American predecessors. This lack had been combined with an extreme technocratic specialization with little regard to the general soci-economic framework in which the proposals had to be worked. This often led to tendering unco-ordinated and irrelevant technical advice. At best this resulted in a waste of opportunity, but at times in a waste of scarce resources, and much mischief through misdirection of policy. I vividly remember my apprehension at the descent of an FAO Mission in Malta. My fears were amply justified. They came up with a programme costing about as much annually as the value of output. The idea that agricultural, fishery, or forestry development was *an aspect of*, and had to be *correlated with, general economic planning* was regarded as disturbing if not subversive. Before the Mediterranean Report could be written we had severe clashes with the heads of the great quasi-independent departments of the organization – then akin to feudal fiefs. These clashes included physical assault by the most powerful and least sociologically aware, the Director of the Agricultural Division, Dr Wahlen, later Foreign Minister of Switzerland. Fortunately he was diminutive in stature (in more senses than one). The steadfast support of Dr Sen inaugurated a new phase in international co-operation and created a new approach by the United Nations, the spread of which to other fields which are still lagging would be desirable.

In respect to agriculture, this has all changed. The International Bank in the terms of reference of its missions and resource allocation now pays special attention to agricultural (and, also, to a rather misguided type of educational) planning. And its importance is being stressed by all. A wind of intellectual change seems to be blowing freely, even if there remain some lee-shores like the LSE and the University of Chicago. Indeed the reaction seems to have gone too far and the computerized model-building, the 'planning' through

econometric extrapolation, gaily suppresses the general social implications of, and thus the need for, industrialization, which are difficult to quantify sensibly. Moreover the capitulation of the Establishment both on the national and on the international level seems more formal than real. The need for rural education, for the intensification of technical advice, for creating the resources required for intensive development, all these policy concepts are freely admitted. But when it comes to implementation both national and international agencies, for reasons which have been discussed in the Introduction,[1] seem still tied by their original pre-conceptions and prejudices.

Development requires the simultaneous investment of resources and application of new technical knowledge. Both are difficult to obtain internally. The former could come from outside in the shape of loans and grants,[2] but even in the best of circumstances such outside contributions cannot be more than a supplement to the domestic effort if real progress is to be achieved. Only in the relatively resource-rich countries such as e.g. Latin America and the oil-exporting countries does even extreme injustice and inequality of prospect and income concentrate a large enough portion of the national income into a few hands which could in theory be forced to contribute to development rather than exhaust the seed corn in luxury imports visible and invisible. In some of these, large-scale modern industry (mainly plantation and extractive) offers a conveniently tapped source of domestic development finance. But, as Mr Kaldor knows to his cost,[3] both these sources are difficult to master. It is for that reason that I advised relatively light and easily collected taxes.[4] Of these land taxation could provide some incentive to more intensive production techniques, but was politically difficult. For the rest it was hoped to

[1] Cf. also Chapters Twelve and Thirteen.

[2] The former in fact represented the sole form of external assistance for economic development (though some free grants were given to colonies in emergencies) as recently as before the Second World War. The rise of the. latter represents a major innovation in international relations, the application of welfare principles which even in domestic affairs are of very recent origin. The fact that the terms of trade of the poor countries have further worsened since 1956 (the reasons are discussed below, Section Four, Chapter Eight) and thus negatived the increase in grants must not diminish the significance of this change. They would have worsened more without aid. Pressure to acquire essential imports, in the absence of assistance from loans and grants, would have led to greater pressure to export primary products and a further deteriorations in the relative prices.

[3] *Essays on Economic Policy*, Vol. I, Introduction.

[4] Cf. Introduction and Chapter Seventeen.

achieve progress mainly by the mobilization of less than fully employed man-power for capital investment especially in rural areas.[5]

Technical knowledge, on the other hand, to be effective, must be introduced on a wide front. Even a relatively small improvement can then be of decisive importance; while even the highest standard of knowledge or training, if available only in a narrow area, will prove irrelevant from a global socio-economic viewpoint and is likely to create exclusive privileged classes. Moreover the cost of quality *ipso facto* inhibits mass introduction in poor areas. Successful development thus demands new socio-technical solutions in the field of agriculture (as in that of education).

In all these matters fashionable thought dominant in metropolitan areas and in international agencies was less than helpful. In many cases there has been a failure to grasp the novel problems posed by independence and to realize that social and economic development in these areas must depend on conscious organization and effort, because self-generating growth has conspicuously failed to materialize.

In agriculture much the gravest problem has been the frustration – because of the vicious inequality in the distribution of the land in most underdeveloped areas of the world outside Africa[6] – of the 'normal' working of the market mechanism of incentive through price and cost structure. This applies to monster properties as much as fractional ones; minifundia as well as latifundia.[7] In areas where property rights are vested in the tribe, or the extended family, a similar disability exists. It would be fallacious, indeed, to claim that the proprietors (or tenants and temporary beneficiaries) of land behave in an irrational, uneconomic, or puzzling way because they are not making the best use of the land. On the contrary, from the viewpoint of their own political and economic future (or that of their clan as a whole) theirs is rational behaviour. Any 'progress' would imperil the dominance of the landed, undermine the tolerance, based on hopelessness, of the landless. Moreover, conspicuous prosperity in the midst of abject poverty would invite retaliation: how much better to exploit the landless through share-cropping while retaining primitive methods. Conversely progress would not benefit those miserables who would have to put in great effort or shoulder extreme

[5] Cf. e.g. my reports on Jamaica and India (Section Five Chapters Seventeen and Twenty).

[6] In Africa the introduction of private land ownership has begun to result in inequality especially in areas of cash cropping, e.g. Ghana and Senegal.

[7] Cf. Introduction and Chapters One and Two.

risks. Its benefits would have to be used to pay for old debts multiplied by usury. In any case the smallholder would not be able physically to shoulder the effort or carry out the necessary improvements (e.g. secure access to canals through the jumble of small properties).

The 'creation of the atmosphere' needed for 'individual initiative' to work its wonders represents a complete revolution not merely of property relations and other basic institutions but of attitudes, especially religious attitudes, and technical knowledge (levee education). The conventional approach which wishes to solve the problem of rural backwardness in a framework of market economies simply begs the vital technico-economic question: *can* the traditional primitive economies in midst of a population explosion be made capable of creating the 'atmosphere conducive to self-sustained growth through individual initiative'; before they are engulfed by a general political catastrophe.

Beyond this restricted technical problem – never posed far less answered by the purveyors of conventional wisdom – lies the even more basic question whether these economies *should* be transformed in the image of the developed capitalist countries. What would be the social hardships involved in such a transformation? Is the ultimate gain commensurate to these losses? Could the valued results in terms of material conditions of a better life not be obtained with less difficulty, delay, and thus suffering by other paths than those followed by Western Europe in the nineteenth century? Indeed, could individual material inventive be replaced by the stimulus of a closer feeling of community? Can, for instance, transition from tribal or extended family land tenure towards large-scale, technically advanced production be shortcircuited?[8]

At this point, however, the lack of technical knowledge and organizational ability become the next overriding obstacle. As the Gezira scheme and the recent Egyptian land-reform show, it is not impossible to overcome them by supervision and the provision of technical education and training. Unfortunately the division of competence in this all-important field between various international institutions has had extremely unfortunate effects. On the one hand the imparting of agricultural knowledge to the primitive peasant has been treated as part of the agricultural extension service. Thus the creation of professional knowledge rather than paedagogic or leadership qualities was looked for. On the other hand the education effort,

[8] Cf. Chapter Three above.

as we shall see, was also modelled on the lines of the 'classical' approach in rich countries. Finally the exploitation of the landless or poor peasant had its reaction in the organization of counterpressures. The result is the deadlock in development.

In the absence of a new organizational and educational effort on completely new lines, embodying some sort of universal national service for labour intensive rural investment, there is little doubt that progress will be confined to the medium-sized landholding where the owner himself works, or at least organizes the work. This means that inequality and social tension will further increase in the poor countries. Within the primitive framework it is to be feared that successful owner-managers will soon become absentees whose interest is in stability rather than progress. Thus the cycle of exploitation will turn another round ending in revolt and a welter of totalitarian compulsion.

Section Three

EDUCATION AND DEVELOPMENT

CHAPTER SIX

Education and Economic Growth[1]

COMMENTS ON PROFESSOR TINBERGEN'S PLANNING 'MODEL'

I fear that I felt somewhat embarrassed when I received Professor Tinbergen's paper[2] for comment. I was quite uncertain of its real intent. Was it a huge joke? Or was it an attempt to reduce econometrics *ad absurdum*: a model,[3] so to speak, to end all models? Or, least plausibly, did it really set out to do what it said? After careful consideration and some hesitation I concluded that Professor Tinbergen really thought that it answered the three important questions he poses in his original paper:[4]

> I. What structure of the educational system is needed in order to let the economy grow at a given rate, and how does it change with that growth rate?
> II. What foreign assistance is needed if the growth of the economy has to be accelerated without changing the technical coefficients of either the economy or the educational system?
> III. What adaptations are needed if the same acceleration is to be obtained without foreign assistance?

I was puzzled, and led to these impertinent doubts, because Professor Tinbergen, having clearly stated his problems, never again refers to them in the body of the document. There is no discussion of the

[1] Paper written for a Conference on 'The Residual Factor' organized by the Organization for Economic Cooperation and Development, Study Group in the Economics of Education. I wish to express my gratitude to the Organization for permission to publish the paper.

[2] *Kyklos*, Vol. XV (1962), Fasc. 4, pp. 776–86.

[3] Is it a model indeed? A model is defined in the dictionary as an image – however simplified – of something existing in reality. Professor Tinbergen's set of equations do not qualify.

[4] *Kyklos*, op. cit., p. 776.

structure of education needed to sustain a certain rate of development, far less to accelerate it. Nor is there any attempt to show in what way self-sufficiency in educated talent can be attained, with or without foreign aid.

What Professor Tinbergen does is to *assume the answers*, and then put them into a simple mathematical form. Surely the assumptions that secondary education lasts six years, that neither secondary-school leavers nor graduates teach in primary schools, or that higher education also lasts six years – all these implausible assumptions cannot be said to amount to a serious investigation of the first problem. His treatment of the rest is no less cavalier.

I shall not try to follow him into the labyrinths of algebraic manipulations of his basic assumptions. What I clearly have to do is to try to dissect these assumptions in order to see whether it is worth while doing these manipulations. This will not be easy. Professor Tinbergen's basic assumptions are mostly implicit and hidden in bland statements about technical relations and coefficients.

An ordinary person would, I think, first consider whether there can be said to be a simple and stable relationship between education and economic progress at all, and whether, in addition, this relationship can be presumed to be reversible. He would not try to deal with little finicky problems, because they fit simple equations, before this major problem is analysed and satisfactorily resolved. He would not, for instance, because it does not seem sensible, at one moment assume a reversible linear relationship between education and economic progress, and then make an inordinate fuss about relatively minor matters such as, for example, the fact that some people go to universities 'for cultural reasons' and do not join the labour force, and so on. A bit of common sense in asking the relevant questions before one sets out to build up a model, and a knowledge of the particular historical or sociological factors, surely is necessary.

Once these questions have been posed, it must occur immediately to anyone who has had any experience of these problems that such a relationship would be found to be fundamentally different in different countries. There would be differences not merely between rich industrial and poor underdeveloped primary-producing countries but also historically, at different stages of total world development, as between countries in past periods which had to pioneer their new techniques and others which now can rely on imitative improvements. The problem is also affected by the accumulation of technical know-

ledge. The existence and availability of semi-automated techniques of production permit the use of semi-skilled labour for highly complicated processes.[5] To assume that a similar simple sort of (and only numerically different) quantitative relationship holds between education and economic progress in all countries is to fly in the face of all historical evidence. But, of course, if non-linearity and certain very probable thresholds are assumed in this relationship, i.e. changes through time between increasing and decreasing returns, then the possibility of conveniently simple mathematical manipulation disappears.

This, however, is only the beginning of the story. The precisely proportional relationship between the number of educated and national income (I wonder what happens in periods of deflation?) means that education is regarded as a homogeneous input with simple constant returns, stable over time and between historical periods. This is, even in respect to the relatively more highly developed countries, an odd sort of supposition. In the case of the underdeveloped world, it is quite fantastic.

As the head of a team which was charged with writing a report on the integrated development of the Mediterranean for the FAO,[6] I was interested to see that Professor Tinbergen is elaborating on this basis a *soi-disant* 'model' 'for planning the education systems in a few Mediterranean countries'. It seems to be based on the assumption that 'primary education . . . [is] . . . no bottleneck for the required expansion of secondary education *and for production increases*' (my italics). I wondered which these few Mediterranean countries were. Even in Greece the problem of the impact on agriculture of the traditional attitudes to education is a major critical point for agricultural expansion, and thus of the adaptation of her economic structure to the requirements of the association with EEC. Nor can it be said that the quality of and attitudes to secondary and higher education are such that a simple proportionality between the stock of the educated, lawyers and literati, on the one hand, and output on the other, would

[5] The neglect of this heterogeneity of the supply of labour and the consequential discontinuity of production possibilities in underdeveloped areas is one of the more obvious explanations of the surprising silliness of the advice of traditional theoretical economists on the choice of techniques. This advice is usually based on the assumption of homogeneous labour supplies.

[6] *Interim Report*, Rome, 1957. *Final Report*, Rome, 1959. Together with H. Ergas.

hold when it comes to using it for policy-making purposes. It is not likely that development could be accelerated by increasing education *tout court*, irrespective of the quality of that education. In Turkey, Spain, and the southern shores of the Mediterranean, Professor Tinbergen's approach would yield even more absurd results.

In Africa, and probably in Latin America, the increase in the 'input' of conventional education would in all probability actually *decrease* rather than increase outputs.[7] The regrettable example of Western Nigeria with its immense rise in unemployment of school-leavers is really conclusive. The present plans in Africa and Latin America certainly are fatal from the viewpoint of balanced progress.

But even if Professor Tinbergen's particular application of the econometric approach were not patently illegitimate, it is doubtful whether this type of analysis of the economics of education can ever be legitimate. All calculations of the impact of education on economic progress derive from a model of the economic system which is completely static in character. They are dependent on a hypothetical description of the past, and are usually based on the assumption that additional increasing quantities of productive factors such as labour and capital, all assumed to be homogeneous, will yield diminishing returns in a particularly unconvincing equiproportional fashion.[8] The possibility that a relationship is different, and mathematically less easy to work with, for example, changes through time, is disposed of by dismissing it. A systematic relationship is then calculated and from this procedure it follows that, if a decrease in returns was not in fact experienced, this failure of returns to decrease can only be accounted for by some residual factor with a lasting impact. This extraneous factor is then analysed into a systematic trend-like movement which is called technical progress or increased knowledge or what have you, and the residual of the residuals seems lately to have been increasingly attributed to education.[9]

The trouble, thus, is that the answer to the question 'What was the

[7] I often wonder whether Britain's sluggishness has not something to do with the democratization of classical arts education and the disdain of technical training.

[8] On the present position of econometrics, see; *Journal of the Royal Statistical Society*, 1960, Part III, pp. 274–96. Especially J. Downie, 'Statistics and the Economist'.

[9] See, for example, R. Solow, 'Technical Change and the Aggregate Production Function', *Review of Economics and Statistics*, 1957.

contribution of the factor X?' can only be answered by answering the question what would have happened if that factor X had not been present in the past, or generally present in a different quantity, or, *horribile dictu, in different quality*. The last and most disturbing of these suppositions is dismissed, as we have seen, by assuming homogeneous inputs. How illegitimate this is. In truth we do not know exactly how education is related to technical progress, nor do we know how technical progress and investment are related.[10] Nor do we know why the relationship between the volume of capital and its yield is so different in different countries, and at different times in the same country. What we do know is that the relationship has hardly ever been constant. Admittedly, most authors are rather coy in their expressions. They will not, at any rate in the opening chapters, *say outright* that educational or technical progress *was* the *cause* of these increases in production. They first say that it was 'associated' with it, or 'contributed' to it. When it comes to the conclusions and policy recommendations, however, such scientific modesty is discarded and the qualifications are dropped. (I must say, however, that Professor Tinbergen is quite consistently ambitious in his claims.)

But even the more detailed and less assertive efforts seem to be obnoxious. It is quite illegitimate to claim that an educational system which in the framework of the United States has been accompanied by a certain growth rate would, in a different framework, be accompanied by a similar growth rate or a growth rate which can be calculated on the basis of the educational status (assessed quantitatively) alone. Such a quantity of education in the feudal-aristocratic countries of South America, the colonial-aristocratic areas of British Africa, and the litterateur-colonial areas of French Africa would produce not merely no growth but possible refusal to work on farms, an increase in urban unemployment, subversion, and collapse.

The calculations that attribute to education sensational effects in this way simply disregard these difficulties, and are based on practically all possible fallacies which could be committed in an inquiry of this kind.

Firstly, they derive a residual of growth rate, i.e. that part of the growth which, on the basis of their own particular assumptions and constructions, remains unexplained by the increase of other factors

[10] See Mr Kaldor's brilliant dismissal of the production function, in *Oxford Economic Papers*, February 1962.

of production. They then assume, equally unwarrantably, that investment in education is not merely a cause (rather than the effect, or one of several conditions) but the sole and sufficient cause responsible for the whole, or a certain artificially selected portion, of this residual growth experienced in certain examples. Finally they assume that this causal connection, which has not been proven, would hold in completely different historical, and thus social, economic, and technical contexts. A kind of iron law of education is established.

Even worse are those mathematical calculations which try to derive a rate of return on capital investment in education for the individual.[11] Besides fallaciously mixing up necessary and sufficient conditions, and confusing causes and effects, they assume that the social and political framework, which to me seems primarily responsible for the differential between professional and skilled remuneration on the one hand, and unskilled wages on the other, has a neutral influence, and that that differential is determined purely by the cost of education on the one hand, and the loss of experience due to not being in a job while educated, on the other. A sort of perfectly competitive educational-opportunity system is imagined in which relative prices express relative social costs and scarcities.

This is fantastically untrue even in the United States, where individual effort might at any rate get people up the educational ladder by their own efforts, though there certainly is not equality of opportunity in getting jobs. But who would dare to assert that the income differentials in the management ladder are in any way established by pure and perfect competition? In other countries, educational opportunity and differences in remuneration are both even more the outcome of the (defective) general sociological framework. They are the result of monopolistic elements stemming from *de facto* restrictions on class mobility. This is patently so not merely in Africa and South America but in most countries of Asia and certainly in a number of Mediterranean countries. Even in England, professional differentials are dictated not by the free competition of people but by monopolistic considerations deeply embedded in the social organism. In ex-colonial territories in particular, the differentials are caused by the adoption

[11] In order, I suspect, to plead for making education 'pay for itself', abolishing free education, and giving loans to a prospective student to be paid back from the increase in his earnings as a result of his being educated.

for civil servants of pay scales established during the colonial period. These were dictated by the fact that the Colonial Service had to attract people from the metropolitan areas. Inasmuch as the State was a completely inactive night-watchman State, this did not matter. The political situation has fundamentally changed, the economic content and concept of public policy has completely changed, but not the relative pay and conditions. To support a couple of dozen colonial officials needed for a 'law and order' night-watchman State, at a rate of 100 to 200 times the national average income, is possible, if perhaps not very desirable from the viewpoint of national dignity. To support a bureaucracy of the size needed for a modern, *positive* State is patently impossible on the basis of such differential pay. Calculations made about the profitability of education on this basis are not merely fallacious in a technical economic sense but are largely immoral politically.

I admit the attractiveness of this mathematical approach. Land reform, the creation of agricultural extension services and of an adequate agricultural credit system, the reorganization of the Civil Service, the establishment of State industrial corporations – all these are complex matters. They involve a change of attitudes, a reform of institutions. They hurt vested interests. They cause political difficulties. How much simpler to lift out of a residual estimated by illegitimate methods and representing complex conditions of progress, a particular factor – in this case, 'the vast heavy investment which all countries undertake at all times in the development of their human resources' – and assign to it a definite causal force.

At best, *if the right kind of education* (especially technical education at all levels) is provided, education might be a *complement* assuring that actual physical accumulation of capital in new seeds, fumigation, sprays, fertilizers, tools, and factories became more effective. It can provide the mental and social framework for progress. But it must not vitiate these general and specific material factors of growth by absorbing so large a part of the effort of the community as to cause a breakdown.

Underdeveloped countries are not called upon to make new discoveries. They could lay the foundations for an immense and quick leap forward by adapting and applying old discoveries systematically. This is obviously what is required in view of the oppressive misery and sickness. Their scarce resources must and can be stretched by obtaining, for a short period, foreign technical personnel who would

work under domestic political control, and they could obtain specialized education and training abroad for their own nationals at a fraction of the cost now contemplated.

Does my criticism of the ramstam methods hitherto adopted by over-eager or just simple econometricians and mathematical economists add up to a complete repudiation of all quantitative analysis? Nothing could be further from my thoughts. Qualitative meditation without the discipline of quantification would certainly not produce an acceptable alternative to the approach I criticize. It was, in fact, this sort of humanistic-litterateur approach which has resulted in the present dearth of technical talent in many European countries, but even more in the colonies of which they had charge. Because of the long gestation period in education, we must try to plan forward in some detail, over extended stretches of time.

Educational long-term perspective planning, however, must – in my opinion – start with a rather detailed plan of socio-economic development. It cannot start just from some arbitrary global hypothesis.

In particular, such a perspective plan must embrace a serious politico-sociological study of the problem of how, and how far, traditional educational patterns had contributed to the failure of social and economic progress in the past. Such a study is the essential basis of all educational planning. It must discover whether the attitudes which are hostile to economic progress have been the result of a specific structure of education, and what modifications of that structure are needed to obtain a new approach to the technical requirements, in terms of knowledge and training, of accelerated economic expansion. Both in the formerly British and in the formerly French territories, a disdain of technical education has grown up, and this has been exacerbated by the relatively lowly status of technical schools and the restricted career possibilities open to their pupils. So long as the Civil Service and those appointments which are controlled or influenced by it – and they are the majority, if not the totality, of all worthwhile posts in the newly free area – are the preserve of the non-technically educated, the best ability will obviously be diverted into non-technical education. This will both justify and increase the initial disdain, and render economic and social progress more difficult. First-class technicians will just not be available. First-class talent will ensconce itself in the capital in nice administrative jobs.

On the basis of this study, a new educational structure can be

planned which will give adequate status to those qualities in the educated elite which harmonize with technical requirements of accelerated progress.

A long-term perspective educational plan demands an idea of the shape of economic development that is hoped for. A perspective 20- or 25-year plan will have to be produced because (and in this I fully agree with Professor Tinbergen) the gestation period for educational preparation is very long indeed.

I do not thing that technical shortcuts such as, for example, the methods advocated by Professor Chenery[12] will be much good in this respect but they are certainly far better than Professor Tinbergen's approach of simply writing down an arbitrary equation. Professor Chenery wants to base planning on the assumption that the distribution of manpower between different occupations at each stage of economic development in different countries is identical or closely similar. This methodology neglects the fact that past experience can only be drawn from cases which evolved as a result of *spontaneous* growth (or its failure). It would be wrong or at least illegitimate to assume that this experience is applicable to *deliberate* efforts to *accelerate* growth. And can such efforts be successful if plans are not adapted to overcoming the *specific difficulties* which have been responsible for the failure of growth in different countries? These hindrances are likely to *differ* widely from country to country, while the States which have shown some progress in the past have shown success for a few categories of broadly *similar* reasons.

Far more promising is the approach adopted by Mr Pitambar Pant of the Indian Planning Commission and by Mr Dhusis of the Greek Ministry of Co-ordination. This consists of drawing up a long-term perspective plan for industrial development and then considering (on the basis of current experience) what detailed categories of education and training, and in what quantities, are needed to meet the requirements of the expansion of industry and agriculture if the direct development goals are to be achieved. Even present trends might be misleading because of the rapid changes in technique.

This list will have to be detailed, as education is by no means homogeneous and the sociological difficulties in the way of changing attitudes are very strong indeed and take a long time to overcome. At the same time, it is obvious that the educational effort will be

[12] 'Patterns of Economic Growth', *American Economic Review*, September 1960.

extremely expensive in the sense that, at each stage of economic development, an educational system needed for the *next* or even *subsequent* stage of economic progress will have to be supported. Thus educational planning (unless technical assistance can be expanded far faster than now seems likely) will have to be extremely conservative and expense-conscious. Such conservative advice is politically difficult, because very unpopular, and in great tracts of the world also suspect of racial discrimination. Commensurate efforts must therefore be made to dispel prejudice against a balanced educational plan as a part of a balanced overall plan, preferably on a multi-country regional basis (e.g. West Africa). The larger the area for which collective planning can be initiated the greater the scope for, and the less the danger of, those specialized institutions (e.g. nuclear physics) which are so expensive, so unrelated to immediate economic and social progress, so conspicuous, and therefore such a coveted status symbol.

Every single international and national agency dealing with development ought every day to make a new vow to press the emerging governments not to disregard the need for a balanced programme of long-term development. The difficulties in the way of accomplishing this are immense. The whole historical sociological framework militates against this approach. The new elites in Africa and the old ones of South America and Asia are bitterly opposed. Moreover, the fact that United Nations help to underdeveloped areas is divided up between specialized agencies independent of each other encourages an approach of competitive bidding rather than organic planning. While to some extent this is an excellent stimulus to performance, there is a grave danger that no one (except perhaps the International Bank) will be responsible for approaching the problem from the viewpoint of the balanced development of the whole. This is, in my opinion, one of the main reasons for the relative ineffectualness of the vast amount of aid flowing towards poor countries.

In particular, it is essential to bear in mind that the educational requirements and the optimal form of education in each type of country is determined by its own historical development and by the comparative advantages dictated by its natural resources or lack of them (including geographical position). The attempt to abstract from these problems and to produce an all-embracing model, or to discover exact numerical relationships for factors which are essentially qualitative in character, will only create confusion and retard progress.

I put the blame for this confusion squarely on the shoulders of an over-enthusiastic fringe of mathematical economists and econometricians. In their frantic efforts to arrive rigorously at quantitatively precise statements they have unreasoningly applied methods based on primitive and unrealistic models of the economic system. What they are prone to call 'improvement of technical knowledge' should more appropriately be called a measure of our ignorance.

CHAPTER SEVEN

Oxbridge Rampant

EDUCATION AND PROGRESS IN UNDERDEVELOPED AREAS

Commonsense principles for educational policy in underdeveloped areas seem as simple and self-evident as they are apparently unacceptable. First, education ought to be in closest harmony with the technical and administrative requirements of the country. Secondly, it should not on any account create a disaffected intellectual proletariat. Thirdly, it should be in close touch with the life of the community as a whole.

Yet a Whig bureau-aristocratic approach to education in the Indian Republic bids fair to undermine political stability. Some of the weaknesses of this approach were, of course, implicit in the original concept of Empire. It would not have been possible to obtain suitable candidates for the Indian Civil Service a hundred years ago had exceptionally high salaries and living conditions not been offered. An income equivalent to perhaps 250 to 300 times an ordinary labourer's wage had to be promised to successful candidates, and the possibility of retirement at fifty-five. They had to be provided with guesthouses for their peripatetic tours of duty. This meant, of course, a physical separation between rulers and ruled but, in the circumstances, that was inevitable. The fact that the rulers gracefully retired to the clubs of the West End or to some southern English resort at any rate ensured a detached objectivity which was in stark contrast with the corruption and nepotism elsewhere.

To man this service, university education in England was reformed. The effortless superiority, on which administrative capacity was said to depend, was then thought to be best obtained by a judicious mixture of breeding, character, and purposefully useless erudition. All this was best procurable by selecting from among a mainly well-to-do elite. The formal education, which developed dialectical powers

rather than knowledge of the world, was a second ingredient. Finally, physical courage combined with intellectual conformity was fostered through games. This combination of Arnoldesque muscular Christianity with the feudal traditions of the old universities was then transferred to India. As 'Indianization' of the service began, the complete fissure between the rulers and the ruled was transmitted to Indian society because of the need to avoid discrimination in salary and status between colleagues.

At no point was there any real questioning as to whether the creation of a rather isolated intellectual elite, which had little technical knowledge, was really the most desirable way to influence the basic requirements of development. It can, of course, be argued that, except perhaps for Japan, no action had ever been taken up to 1914 consciously to transform a community and its techniques and make it fit to take the impact of modern life with its corrosion of traditional social arrangements. But this innocence could no longer be pleaded after 1920 when, perversely enough, the Whiggish approach had its greatest spurt into the educational void of the colonies. Two pernicious consequences followed. This type of education tended to split the nation into two hardly intercommunicating classes; it also made reform virtually impossible, as the technical knowledge to effect reforms was lacking at all stages of authority.

With some conspicuous exceptions, of which the Delhi School of Economics is a notable example, higher education and administrative recruitment in India are singularly ill-fitted for the fast-growing need for positive State guidance in economic and social development. St Stephen's College, Delhi, with its slightly missionary-tinged imitation of the old universities, leads the high-caste candidates into the new Indian Administrative Service. 'We want Brahims, you know,' said the Chairman of the Indian Civil Service Commission to a friend of mine. 'They know how to rule.' In 1949–50,[1] there were 297,000 students at the 'arts' and science colleges but only 12,000 in higher technical training and 3,600 in higher agricultural training. Some 80 per cent. of the population is illiterate, but only 57,000 teachers are in the process of being trained for well over 500,000 villages. Volunteer work, however enthusiastic, cannot be a substitute for professional teaching and training. The dilettante gets the plum (still a hundred times the labourer's wage), while the teacher and engineer can go hang.

[1] The last year for which statistics were available at the time of writing.

Moreover, the ruling bureaucrats, with some conspicuous exceptions at the centre, are able to use their power to consolidate personal positions by means of marital alliances. This does not encourage impartiality in carrying out the new tasks which the new regime requires. Can one be astonished that the whole character of education of young people and the methods of teaching become conditioned by this easy way to success? Intellectual snobbism permeates science, and pure theory is at a heavy premium. Immense sums are spent on institutions which do not put the special scientific needs of the country at the head of their agenda. The practical result, of course, is that the enthusiastic, temporary workers of the Planning Commission and other specialized agencies are kept very much in their inferior place. Reform carefully planned at the centre languishes in the field.

If, then, the type of education favoured can do little, at best, to meet the basic needs of an underdeveloped country, at worst it imperils the stability of society. In a large number of cases, it has not been followed by a positive policy of economic expansion, and jobs for the newly educated were therefore lacking. Thus an articulate class of disaffected intellectual proletarians was let loose.

The same kind of educational policy arises in Malaya. In this country, there has been an explosive increase in the numbers attending primary schools. Nevertheless, a disproportionate part of total expenditure is earmarked for the university which, with its groves and villas unrelated to the life of the community, confronts awful slums across a terrible canal. There are fewer students attending technical schools than the university, and not many more even if all medical students are excluded from the count. Agricultural training here also is confined to an infinitesimally small number. Yet Malayan agriculture has developed only a fraction of the potential area available, and the urban slums are seething with overcrowding. Nor can the Malayan peasant solve his problem without administrative and scientific help. His output is only a fraction of that achieved in the experimental areas of American combines at a time when artificial rubber menaces the natural product. Only the utmost efforts of scientific reconditioning of plantations and of peasant holdings can help to increase the standard of life. In the same way, any diversion of resources towards other profitable tropical products, such as the growing of edible oils and their initial processing, would require a vast increase of people able to teach and eager to experiment. Yet numbers of graduates are unable to find jobs and indeed are utterly unable to integrate them-

selves back into the community. And even the more successful, having been sheltered at the university, are later harshly confronted with the colour bar. They are impelled towards the jungle: expensive recruits to the Communist enemy. The challenge of Communism, with its intense indoctrination and training and its vast accumulation of capital and ruthless disregard of any impeding customs and traditions, can hardly be met in Malaya or India, or indeed in any of the threatened areas by these methods.

Is it not time that we began to realize that education must take its place in a co-ordinated scheme of social and economic advance, based on a broad attack (backed by volunteers) on illiteracy and followed up by intensive vocational training on an almost equally wide front? The content of education ought to be adapted to the requirements of a modern State and community: technical education rather than classical, vocational training rather than ill-digested pseudo-theories on the true way of acquiring the art of administration, ought to underlie our efforts to fit the dependent areas for the new and exciting task of members in a co-operative Commonwealth.

POSTSCRIPT TO SECTION THREE

Stagnation through Education

There is, perhaps, no field of economic pseudo-scientism where more absurdity is being published – and, alas, acted upon – as that of education. One almost longs to be back in the 'bad old' days when classicist educational pundits and administrators established completely irrelevant types of university education happily ignorant of any need for any fresh analysis of social and economic requirement. They at least believed in transmitting 'the best that England' (or France or Spain) 'could offer' to form the 'character' – and reinforce the privileges of a ruling elite. Atrocious as the consequences were in moulding inequality of a specially obnoxious kind into the body politic

of the emergent areas, they were at least historically explicable or even justifiable. And it was easy to show the ineptitude of their proposals and the fatuity of their high-sounding principles[2] in the contemporary setting of the misery of the vast majority.

Thus the socio-political attractiveness for the Establishment of evolving an economic, indeed econometric, approach to the problem of education and the economic effects of an advance in technical ability, seem in retrospect apparent. On the one hand it would help to reconcile the neo-classical economic doctrine of the general prevalence of diminishing returns as the volume of any single factor expanded – a doctrine which was essential if the market economy was to be shown to be beneficial all round – with the facts of life which unequivocally proved the immense benefits that could be derived from an increasing scale of production. On the other hand it would establish a presumption that education was directly, and in money terms profitable both to the individual and to the nation. If education could be shown to be harmoniously beneficial to, and obtainable by, individuals without distinction, far-reaching conclusions could be supported on the desirable ways in which to finance this major social service. These conclusions would seem favourable to decentralization and individual responsibility on the pretext of providing equal opportunity. Thus State action could be shown to be superfluous and indeed repugnant to individual liberty and collective prosperity. The conclusions based on this line of approach would thus be conservative, if not retrogressive, in character.

A harmony of inteiests, and the achievement of justice in the sense of everyone receiving his deserts, his '*iustum precium*', had formerly been proved by an analysis based on the assumption of unchanging resources. Now it could be restated in a dynamic setting. The fact that the inequality in wealth and income was far greater in poor undeveloped areas than in the rich and integrated communities of industrialized continents and that it would, of course, vitiate the basic premises of this argumentatic was ruthlessly disregarded. The protagonists of the status-quo claimed that this at last was an 'objective' scientific justification of the policy of educational inequality, which would give moral justification to what happened and render unneces-

[2] Cf. e.g. Chapter Seven and 'Misconceived Educational Programmes in Africa' (*Universities Quarterly*, 1962), 'Catastrophe in Africa' (*Times Educational Supplement*, 1962) and 'The Problem of Education in Africa' (*Centennial Review*, 1962).

sary any painful reconsideration of policy. This approach, as we have seen, was also alluring from the viewpoint of pure theory: education could be absorbed in well-known categories, dealt with in an accustomed manner and yield pleasing answers.

So it came about that, after a long period of silence and neglect, an ever-swelling portion of orthodox economic output came to be devoted to the theme. The blessing of the Establishment was as profitable to the authors as it was effective in hallowing the efforts: 'and thick and fast they came at last and more and more and more'. First of all there were get-togethers. The OECD organized a Conference in Washington in October 1961[3] devoted to the economic impact of education. UNESCO organized a series dealing with the economics of education and higher education in Africa, Latin America, and the Far East.[4] The great American Foundations organized a number including one or two at the University of Chicago in 1963.[5] The OECD then went one better and invited even sceptics to its Study Group on the residual factor and economic growth, in Paris in 1963.[6] That autumn the International Economic Association climbed on the bandwagon with a jamboree on the luxurious shores of Le Lac D'Annecy.[7]

A sort of consensus of opinion emerged which was 'numerate', and therefore claimed to be 'scientific and objective'. It is not an exaggeration to say that it reduced the most intricate and difficult social processes involved in change to an exercise in the 'price of income streams' as a determinant of 'investing in human capital' and especially of 'investing in agricultural people'. Quantitative relationships could thus be derived without any enquiry into the awkward and controversial problems. It was possible to disregard the problem of whether social attitudes at the top and bottom would not have to be drastically modified if the educational drive was to lead to a strengthening at each stage (and at reasonable cost at each stage) of the economic expansion of the country. The 'scientific' argument for increased expenditure was naturally taken up with vigour by professional educationists in national administrations and the international

[3] Policy Conference on Economic Growth and Investments in Education, Vol. 5.

[4] *Education in Africa.* UNESCO. 1962.

[5] Conference on Education and Economic Development, 1963.

[6] *The Residual Factor and Economic Growth*, Paris 1964. (The groups met in May 1963.)

[7] Robinson and Vaizey (ed.), *The Economics of Education*, 1965.

organization responsible.[8] It promised increased influence and status for their expanding bureaucratic empires.

The foregoing two chapters were a futile attempt to stem the tide. They had, of course, no success. In fully developed areas where resources are abundant and some waste does not matter – this certainly does *not* apply to contemporary Britain – the fallacies propagated are of little importance. But it seems essential to reconsider the fashionable conventional wisdom in the field of educational planning and policy[9] in poor countries because there they are bound to have pernicious effects. These countries are faced with a population explosion and a dearth of resources – including foreign aid – which threatens to prevent self-sustaining expansion. Only the most energetic exploitation of available resources, including the mobilization of underemployed or wrongly employed manpower, could hope to avoid a positive further degradation in the standard of life of the (rural) masses. Only national unity and integration, a willingness for common austerity and sacrifice, could enable them to move on to a self-sustaining cumulative improvement. Yet in no field of human endeavour has the irrelevance and menace of imperial institutions and of imperial attitudes been as great as in education.

In the essays reprinted as well as in some not reproduced in this volume I have endeavoured to show that the educational drive as conceived is not compatible with an orderly programme of economic and social development, because of its social implications[10] –

> The new grandiose programme put forward by UNESCO would cost some $2,600m. in 1980. This means that on the average (if it has much meaning) over 5 per cent. of the African national income would have to be committed to this type of education, rising fast to over 10 – possibly 15 – per cent. The UNESCO Report estimates that foreign aid, rising to a maximum of $1,000m. annually would be needed to carry out this educational effort alone. No doubt American and Russian aid are on the increase, but it would be

[8] By calling his apologetics 'African Universities and the Western Tradition' (The Godkin Lectures, Oxford 1964) Sir Eric Ashby neglects the robust common sense of the vastly successful American educational experiment and defends (as he did in his Report on Nigeria) the quasi-feudal British approach.

[9] I have made use of some earlier papers, and I wish to render my thanks to Mr Streeten, who clarified and developed my views.

[10] 'Misconceived Educational Programmes in Africa', *Universities Quarterly*, 1962.

> hardly safe to assume that *total* international aid would more than double. Indeed it might not increase much for some time because Western European contributions are declining (p. 246).
>
> If, for instance, we in England were to pay our school teachers as well, relatively to average income, as UNESCO proposes to do in Africa, their salaries would be £4,500–£5,000 p.a. On the same basis the capital cost of a place in a university would be £50,000 (by comparison with the actual English figure of £1,500). The nonsense of such a plan is obvious as soon as these comparisons are made. Yet it has been completely accepted, and no one dares speak out against it (pp. 246–7).
>
> Welfare and administrative services must not pre-empt the whole of the resources available for development. If they do they will be self-defeating, and failure on this vital point will inevitably push the African people towards a Chinese totalitarian mobilization of the peasant (p. 247).

Thus one has come up against a post-liberation Establishment. In the old days of imperial domination non-conformity meant striving for increased political rights and equality for the Afiican. It meant calling attention to the problem of dealing with the backwardness of the traditional sector. It meant shifting education towards technical education (including administration), and more especially, towards agricultural education through the vast development of agricultural extension services coupled with it. It meant a shift of research and care from cash crops needed by the metropolis, to food and nutrition essential to the health of the inhabitants. It meant universities which were closely linked with the social economic future of the country and which, through intellectual freedom and discussion, could flourish. These demands have been so strenuously and successfully resisted by the Establishment here, in France and in Belgium. The failure of reform produced a situation in which the basic requirements of development can hardly be made. Thus the old problem emerges in a new guise.

On the one hand a small elite arose, hardly less disdainful of technical knowledge than the Imperial Administrator. Classics and history. Beowulf and Racine pre-empt resources without fitting the recipient for a positive policy of planning. At the same time the newly founded universities in Africa (as in this country) combined the least attractive features of both Oxbridge and Redbrick. There was no

Athenian democracy there, which makes Oxbridge capable of absorbing and integrating furiously conflicting views. Professorial oligarchy was combined with a predominantlv lav (and to a considerable extent British[11]) Council, thus establishing the need and opening up possibilities, for violent change. Moreover these mock-colleges, without the predominance of the non-professorial young, vastly increased the cost of the educational establishment without fulfilling the need for intellectual freedom; they created empty forms, red begowned and high tabled, strengthening the already menacing tendency towards segregation within the university and of the university educated within the community.

Unfortunately neither national nor international agencies[12] are organized suitably to aid the poor areas in dealing with this deadly problem. UNESCO's structure is not functionally adapted to the further development of poor areas but to international collaboration between already fully developed countries with a full panoply of cultural, research and teaching structures. The national organizations in the prosperous areas of the world are obviously grappling with their own problems and they are difficult enough, as the example of Britain and France, not to say America, has fully demonstrated in the past few years. Nor can they without basic changes adapt their conceptual framework to the social or economic problems faced by developing countries. There is no impulse to do so. Yet such a reconsideration of the conventional economic wisdom in the educational field is the more urgent as the fallacies on which it is based seem to be perpetuated and communicated with all the modern facilities controlled by the Establishment. The criticism of the conventional arguments, and the critics to whom no answer could be found[13] have been treated as un-arguments and unpersons by complete suppression, in

[11] As Sir E. Ashby puts it: 'For one thing, the Council could not achieve its prime purpose of reflecting Nigerian opinion and trends of thought over higher education, for there was in Nigeria a very small reservoir of public men with academic experience from whom the membership of the Council could be drawn. Although by 1959 thirteen of its twenty-one members were Africans, the Council was inevitably coloured in its views by the British members, who were far more familiar than the Africans with academic affairs.'

He adds with inimitable English meiosis 'Admirable though its membership was, it could not regarded as a satisfactory bridge between the college and the African public.'

[12] [Apart from the Ministry of Overseas Development, the implication of the establishment of which I cannot discuss at the moment, 1965.]

[13] See, e.g., *The Residual Factor*, op. cit., especially the summing up of Mr R. R. Neild.

very much the same way, and for much the same motives, as Stalin and Khrushchev decreed oblivion for their intellectually superior but politically unlucky adversaries.

There is just a slight chance that such reconsideration will start – at least in Britain.[14]

[14] [I cannot discuss the implications of the transfer of the relations of the United Kingdom with UNESCO to the newly formed Ministry of Overseas Development. It obviously opens a new vista. 1965.]

Section Four

INTERNATIONAL ASPECTS

CHAPTER EIGHT

Aid versus Trade

Notes on the United Nations Conference on Trade and Development

THE RELATION OF TRADE TO AID

There is general agreement on the need to reduce the gross inequality in the international distribution of income and also, I take it, about the undeniable fact that this inequality has been increasing, despite a growing volume of aid in terms of technical assistance and resources, not least because of the worsening of the terms of trade between primary goods and manufactures. It is this latter problem with which we are concerned here.

If trade is viewed from this angle, it cannot be treated independently of the whole complex problem of the relationship between fully developed rich and poor developing countries to one another, i.e., including foreign aid. Fully developed areas cannot be expected to deal separately with questions which are closely interrelated and which affect their international position and domestic situation jointly, and in most cases inextricably.

Conversely, even if the proximate cause of the relative (and, in many cases, even absolute) worsening of the position of the poor countries was the deterioration of the terms of trade, it does not follow that their improvement is the only or even the optimal way of reversing this misfortune. After all, development in the primary-producing areas was not at all satisfactory when the terms of trade were more favourable, and it has to be shown both that their improvement would be better utilized *and* that the burden of the improvement would be distributed in a satisfactory manner. I shall contend that in neither respect is the outlook favourable, and that the improvement of the terms of trade is not the best way of securing international economic equity.

Admittedly, within certain limits, trade questions can be divorced from the question of total redistribution from the rich to the poor areas; but we are not here talking about marginal variations in specific trade, either in volume or in value, but of *grosso modo* changes in the balance of payments big enough to affect the rate of development and economic health of the poorer developing countries. At this level, obviously, a sharp division between trade and aid can no longer be made, and I shall contend that an increase in aid, if well administered and justly distributed, is preferable to the same increase in purchasing power of the poor countries brought about through a deliberate improvement in the terms of trade.

In order to secure the political acceptability of the greatest possible degree of redistribution of income from the rich to the poor, and thus reverse the present drift towards increased inequality in the international distribution of income, it would seem essential to ensure that the proposed instruments would operate in an equitable manner. Without that, a new approach to relationships between foreign nations could hardly be achieved except on the basis of immediate short-run political considerations (e.g. the cold war) the persistence of which is uncertain. In any case, such considerations can hardly be assumed to provide a strong enough moral basis for a sustained effort, and only a sustained effort is likely to achieve the aim, since the poorer areas are menaced by a torrential increase in population.

In the first place, total aid given to any one country would have to be in close relationship with need. The importance of this can be stressed in the light of the unfortunate political effects of the aid generously given to Asiatic countries. In consequence of the openly political motivation in the distribution of this aid, the succour given to notorious dictators impaired the political impact of aid elsewhere, even when given in the most altruistic spirit.

It is equally essential that the burden should fall with obvious equity on the contributing areas. Any attempt to lay the burden unfairly or arbitrarily on some countries, while others much more able to bear it escape its weight, would certainly create serious resentment in the unfairly hit countries and, in the end, undermine the spirit which is needed all round if this undertaking is to come to a successful fruition.

GENERAL CONSIDERATIONS ON THE TERMS OF TRADE; THE SOCIOLOGY OF THE PREBISCH EFFECT

The Relation of the Terms of Trade to Aid

The worsening in the relationship between the prices of the exports and imports of poor areas (known as the 'Prebisch Effect') has to a very large extent been responsible for the failure of international aid – which has become available in increasing volume since 1952, both in terms of know-how and in terms of resources – to accelerate substantially the rate of increase in production in the poor areas of the world. It has thus been responsible also for the increase in international inequality. It is therefore not surprising that people should conclude that this deterioration must be halted, indeed reversed, if the poor areas are to be helped. Opinions differ about the most efficacious way of implementing this policy but there has been very little dissent from the proposition that 'trade is better than aid'.

The deterioration of the terms of trade has no doubt played an important part in the growing international inequality in income distribution. It should be noted, however, that the rich primary-producing countries, notably Australia, have been able to offset, and in some respects more than offset, the deterioration in the price of primary produce by increases in productivity. This more than proportional increase in production offsetting the fall in the relative attractiveness in exports, as a result of the fall in their price, led to greater equality in income distribution in the producing country[1] than would have been attained if the price of exports had been higher and the production lower; for production for the outside market, even after the fall in price, was still much the most profitable use of land and other natural resources.

The Terms of Trade and the Fully Industrialized Countries

Indeed, rational judgement on the relative merits of trade and aid will in the end depend on the diagnosis of the causes of the worsening of the terms of trade. If one believes that this unequal relationship is the outcome of the difference of the character of markets, the remedy is

[1] See *Survey of African Development Plans*, FAO, Rome, 1961. Even more evident is this in the case of Ghana, where new cocoa areas have been brought into full production. This phenomenon is closely related to the basic causes of the 'Prebisch Effect'.

simple. The prices of manufactures, according to this view, increase absolutely and relatively to those of primary goods because entrepreneurs react to falls in demand by restriction in output, and wage-earners in the rich countries are able to force up their wages *pari passu* with increasing productivity. Primary products, on the other hand, are sold in more or less 'perfect' world markets. The primary producer is unable to cut production because the alternative to his producing a cash crop is production for subsistence – a far less attractive proposition. In consequence, any increase in productivity or production is captured by the consumer.

It follows that the terms of trade could be improved by offsetting this difference in the character of markets for the respective products. An export tax on primary produce or a stabilization through currency reform of primary prices is proposed, to be followed by a devaluation of the currency of the (less dynamic) industrial countries. As the latter are less than fully employed and as the trade between industrial countries does not provide a 'net' stimulus to production in the latter, this procedure would involve no losses to these industrialized countries. A simpler alternative would be a uniform proportional export tax on all primary produce, or a more complicated scheme of variable export taxes supporting a system of restricting production.

I shall deal with the problem of export taxes and restriction of production below. In this context, I would just assert categorically that the former need not, and probably will not, lead to a restriction of production, while the latter, as we know, is difficult to organize directly, and is likely to break down.[2]

What needs to be discussed here, however, is the underlying sociological analysis of the problem. Politically, it would be far less difficult to obtain assent in the fully industrial countries to deficit finance or foreign aid than to measures involving international currency reform, a deliberate worsening of the terms of trade, and the like. It should be noted that the burden of the policy would fall inequitably on the shoulders of those countries which permitted imports from primary-producing countries. The more autarkic a country has been the less it would have to contribute. The benefits, moreover, would accrue to a number of very rich areas, notably the United States. This would not render acceptance by other countries easier.

[2] Mr Kaldor has brilliantly analysed the reasons for this (see 'Stabilizing the Terms of Trade of Under-Developed Countries', *Economic Bulletin for Latin America*, March 1963, pp. 4–5).

The Sociological Framework of Primary Production in Poor Areas

So far as the primary producers are concerned, these proposals seem to be based on a superficial view of the complex sociological problems involved in the unequal relationship of primary to manufacturing production. The incapacity of the primary producer to 'capture' by price increases (or at least the maintenance of prices) a fair share of the fruits of an improvement in productive methods (or extension of production) is not due merely to the fact that manufacturing is monopolized while primary production is not. There are far greater differences, which could by no means be waived by an effortless use of a monetary gimmick.

In the first place, cash crops primarily for export are in a number of poor primary-producing countries, notably in Asia and Africa, *the main generator of money incomes.*

This means not only that, in the main, these commodities *must find an outlet abroad* but also that no analogy can be drawn between them and the oligopolistic price-determination of manufactured goods. For the latter, the home market is the determinant one. In their case, therefore, increases in price due to the cost-push also increases income and *ipso facto provides markets.*[3]

Last but not least, the cash export crops, *because* they are the main – and often the sole – generators of money income, are usually also by far the most attractive crop. This is evidently so in poor areas of traditional subsistence farming, where the opportunity cost of growing cash crops is minimal. But it is also the case in areas of feudal tenure where certain cash crops (meat, wheat, and coffee in South America; wheat and olives in the Mediterranean) represent the easiest way of assuring a safe income from the sharecropping peasant or serf (see Section One, Chapter One). This has fatal consequences on the relative bargaining strength of primary producers. They have neither the technical know-how nor the sociological incentive to shift their productive activity, and thus obtain better prices for their exports.

Aid, Trade, and Development

The 'Prebisch Effect' is thus deeply embedded in the sociological framework of the primary producers. Two important conclusions

[3] See *Productivity and Inflation*, OEP, 1958.

follow, which will be the basis of our discussion of certain facile and plausible proposals. The first is that it will be difficult to expect the reversal of the unfavourable trend for primary producers until the sociological framework in the respective countries has been changed, and, secondly, this change in the sociological framework is much more likely to be stimulated by the impact of *well-planned aid programmes* giving alternative employment to rural labour. *Trade, and especially an induced improvement in the terms of trade, is no alternative to a well-conceived programme of aid combined with internal reform.* In the absence of change in the sociological framework, its effects would probably be reaped by beneficiaries who would not contribute to the final development of the poorer countries. 'Well-conceived aid is better than trade' would be a more truthful statement than the reverse, even if it would be foolish to press the point too far.

This conclusion is very much strengthened if one reflects that improvements of trade would not bring help to the most hard-pressed countries in proportion to their need, and its burden would not fall equitably on the various potential contributing countries.

Developing countries with *large exportable cash crops are not obviously the poorest*. In addition, not all primary producers are poor countries. Some – the United States, the old Dominions – are the richest in the world. If measures to improve the terms of trade of the primary products are taken indiscriminately, it is very likely that it will be the less needy who will benefit most.[4]

In the same way, the burden of any redistribution of purchasing power in favour of primary producers through an improvement in the terms of trade would fall upon the back of those whose purchases already contribute to the maintenance of purchasing power in primary-producing countries, while those countries which, because of geographical reasons or because of purposive policies, exclude import of primary produce, will either be burdened less or benefit. The United States and France have maintained extreme protection of their primary produce and would probably benefit from such a scheme. Britain and, to a lesser extent, Germany and Japan would be losers, and the first is likely to be driven to greater autarky, either by way of increased restrictions and tariffs or by devaluation.

[4] It is interesting to note that the proposal to increase the value of gold has been opposed on precisely the ground that it would benefit the richest areas with high gold reserves.

The stabilization of some commodity prices through export quotas and production controls should prove feasible. Moreover, certain creditor countries have imposed rather heavy taxes on the consumption of a number of tropical products. Their removal is obviously to be striven for, as is the relaxation of the deliberate import saving practised by most Socialist countries, which consume far less of these tropical products than the non-Socialist areas of corresponding national income or even consumption level. Thus some stabilization or even improvement of primary-producing prices should be possible, and any policy which prevented the implementation of such schemes should no doubt be reconsidered. Nevertheless, an exclusive concentration of effort on the increase in primary prices is not likely to prove either economically or sociologically as efficacious in improving the standard of living and mitigating existing inequalities in the poor countries as a balanced effort through aid to stimulate viable industrial development in the poor countries.

The stimulation of trade as against aid has the further drawback of not being necessarily connected with the creation of conditions favourable to development. A large part of the gain on previous occasions, when the primary-product prices were favourable, was dissipated in luxury spending. The poor benefited relatively little, and an increase in investment sufficient to start a cumulative improvement did not take place. No doubt aid has been often used, especially in Asia, for the propping up of tottering feudal elites, and has enriched people who did not contribute in any way to the development of their country. Nevertheless, it stands to reason that purposive aid planned for whole subcontinental regions rather than (small) individual countries, channelled into strategic projects well worked out and administered partly through administrators and other experts from abroad, might be a better method of overcoming the resistance to self-sustaining expansion.

SOME SPECIFIC PROPOSALS

Compensatory Finance

The IMF has submitted a critical review[5] of the contention that a shortage of international liquidity exists, and contends that adequate

[5] *Compensatory Financing of Export Fluctuations*, Washington, February 1963.

institutional arrangements are available for short-term compensation of fluctuations in export proceeds of the primary-producing countries subject to specially high risks, both in respect to the quantity of the harvest and the price.

I have dealt with the contention that no shortage of international liquidity exists elsewhere.[6] In this context, I would assert categorically that the presumption of such a shortage is overwhelming in a situation where the United States has a very large current balance-of-payments surplus and considerable unemployment but is nevertheless constrained to pursue a policy of monetary restriction. Even in the Common Market countries outside of France, there has been a considerable slowing-down of progress. International monetary reform, increasing the capacity to create liquid resources and the capacity to increase lending to underdeveloped areas through the IDA or IBRD, is overdue.[7]

So far as the IMF proposals on compensatory finance are concerned, these are ill-considered and insufficient, and this for two reasons.

The first is that the poorer countries have quotas that are low relative to the risk of a fluctuation in their export proceeds. Inasmuch as poor countries cannot afford payment of the gold *tranche*, and as the whole allocation of quotas has been based on the contributions to the Fund and not on the need to use the Fund, the machinery is severely deficient as a means of solving this problem. The second is that compensatory finance would only be fully satisfactory if either a recovery of the export proceeds can confidently be expected, and it is merely a question of bridging an outfall known to be temporary, or the liquid resources provided do not have a short-term repayment obligation.[8]

Unless these conditions are fulfilled, deflationary policies aimed at an automatic replenishment of reserves are necessary.

If the IMF constitution permitted *open market operations* in favour of the deficiency areas – without obligation to repay – this might have the desired effect. As it is, the obligation of repayment within three to five years, without the risk of the deficit in the balance of payments becoming permanent being eliminated by purposive

[6] *Unequal Partners*, Vol. II, Section 23, and 'Planning for Progress', London, 1963, pp. 23–5.

[7] See Mr H. Wilson's speech to the Anglo-American Chamber of Commerce, May 1963.

[8] Even a long-term obligation might prove onerous from this point of view.

action, would obviously put a very severe pressure on the debtors. In fact, the IMF has always insisted on monetary 'discipline' even when only the first *tranche* of a country's quota (which, in fact, belongs to the member countries) was drawn on, especially in those cases – mostly of poor primary producers – where this first *tranche* had not been fully paid in gold. In this way, a deflationary bias is imparted to the international economy outside the Soviet orbit, since the surplus countries are in no way stimulated to expand incomes. Even the timid safeguards embodied in the scarce-currency clause have not been utilized to restore a greater balance in the new gold-standard mechanism.

The IMF report does not touch on the problem of compensating for the long-term trend of deterioration. The IMF would not, of course, accept that such a trend is inevitable.[9]

Export Tax

It has been suggested that a system of export taxes might provide a solution for the deterioration of the terms of trade of the poor countries.

One alternative proposed was a combination of variable export quotas and export taxes to maintain supply at a level which would yield remunerative prices, without freezing the pattern of trade and the geographical distribution of production. This scheme would seem administratively impossible to sustain. Both it and the general export tax are subject to the further objection that primary production is not confined to poor countries but is carried on by a number of highly developed countries which process part of their primary production. Unless, therefore, extremely complicated police measures are taken and these countries enforce the tax, both internally and externally, the scheme might result, in a number of cases, in a shift of production towards some highly developed areas, and an actual worsening of the position in the poor countries.

But even if this objection could be overcome, such a scheme seems ill-conceived. Most primary products, especially raw materials, are under severe pressure because of substitution. The systematic maintenance of high prices itself will stimulate new research, and in a number of cases (e.g. oils and fats), the substitution might take forms which cannot be reversed, either for political reasons (e.g. the increase

[9] And it is quite conceivable that a change in the Soviet-orbit foreign-trade policy will radically change the trend.

in dairy production), or because of a technical revolution (e.g. cocoa, butter, or rubber). It would be obviously foolish to assert that a small increase in prices would lead to dramatic changes. Unfortunately, the basic technological tendency is in that direction, and any security which the potential producers would get from a stabilization of competing 'natural' products is bound to accentuate it.

Nor is this argument confined to its effects on substitution. A general export-tax scheme is not unlikely to stimulate production because of the anticipation that prices would henceforth be maintained to the producer. Production is held back not so much by low prices acting on a 'normal', fixed, schedule of rising production costs as by lack of knowledge of modern technical advances which could easily multiply production,[10] and uncertainty about the future of markets. With stabilization schemes, involving export taxes, the latter disappears, and intense incentive is given to overcome the former. The schemes put forward vastly overestimate the elasticity of supply, with respect to price, of primary products. If, on the other hand, prices do not rise upon imposition of the export tax, and the producer has to pay part of the tax, this may not symmetrically result in a fall but in an increase in production. As we have seen, cash crops represent the best alternative both for serf-peasants and for tribal or feudal landlords. The 'normal' Protestant – North Atlantic – reactions to price changes are hardly likely under these circumstances. 'Backward rising' supply curves have been found to be much more usual. In any case, production is not carried on in 'static' conditions with unchanged resources, including technical knowledge. Technical knowledge is available to multiply production. I would certainly not dare to put forward any definite views of what the impact of a general export tax on production would be, and I do not know how anyone can be sure of it.[11]

It is highly likely that poor governments who obtained revenue from an export tax would, if production controls and export quotas were not imposed, try to stimulate production in indirect ways, such as supplying cheap fertilizers and spraying materials, providing education and extension services, and so on. Inasmuch as a revolutionary

[10] In cocoa, for instance, yields of 2,000 lb. per hectare are known to be possible in commercial quantities as against a national average of less than 200 lb.

[11] When, in Ghana, a tax on turnover was imposed in the hope that prices had already been fixed at optimum monopoly level and would not rise further, this hope was promptly (and predictably) disappointed.

change in production possibilities is taking place in most of the areas concerned, this may lead to a completely unacceptable explosion in production. On the other hand, a policy of direct restriction would perpetuate internal privilege, because the production of the cash crops would in any event be very much more lucrative than any alternative productive acitivity and would be made even more lucrative by the restriction scheme. Internationally, restriction would work against the more dynamic countries. These would increasingly be driven to try to break out, and the scheme would thus be undermined. Thus a restriction scheme based on export taxes is unlikely to work; one based on physical controls is unlikely to work in a socially and internationally tolerable fashion.

There is a further and grave objection. If the benefits and burdens derived from the export tax and resulting from the increase in price of the commodities respectively are counted into total aid given and received, this is likely to represent a rather clumsy and unjust way of redistributing aid. A unilateral move of this type, moreover, might well arouse hostility; and if this led to a cut in other forms of aid, and if the poorest areas – which are precisely those which do not export much – did not receive any compensation, the proposal would be positively mischievous.

Liberalization

It has been suggested that a general liberalization of trade might help the poorer countries, especially if it is made unilaterally, i.e. if the poor primary producers are not required to make any counter-concessions. This proposal leaves out of account the extremely variegated situation in the so-called rich countries. If it were to be accompanied by a series of devaluations, liberalization would lose its effectiveness on imports, though it might still be of no disadvantage to the poor areas because it might – at least temporarily – reduce the price of manufactures in terms of primary produce.[12]

No rich country can be expected to tolerate unemployment caused by a general measure of liberalization. This has been shown by the escape clauses in the commercial treaties negotiated by the United

[12] Though if this analysis is correct, the relief is likely to be short-lived: devaluation in industrial countries is likely to lead to wage increases; while the (temporary) fall in demand will affect the price of primary products disproportionately.

States of America, which permit emergency restriction on imports detrimental to American industry, and also in the efforts on the part of Britain to limit imports, even from politically favoured countries. It would seem foolish to expect that unemployment will be tolerated, especially if liberalization is general and if there are no specific sentimental reasons (e.g. the ideal of Commonwealth solidarity) for sustaining the sacrifice incurred by the richer countries.

On the other hand, if a liberalization combined with devaluation leads to severe currency crises, it is probable that the end effect will be deflationary as each country tries to readjust its balance of payments by retrenchment. It is not altogether surprising that the change in the Western world towards liberalization and reliance on monetary control was contemporaneous with the worsening of the terms of trade of the poor countries. The effect of liberalization, in fact, was to restrict demand and slow down growth. This led to a worsening of the position of the poor primary exporters.

Non-discrimination

It has been suggested that bilateral agreements would not be compatible with real national independence, and it is argued that they would be liable to perpetuate neo-colonial relationships.

In point of fact, all effective concessions in favour of underdeveloped areas, especially in the field of manufactures, have been made bilaterally. This is true of all industrialization projects by the Soviet Union, which are based on credit plus repayment by bilateral purchase agreements. In the same way, British concessions to Hong Kong and India were strictly limited and on a bilateral basis. The Americans have given concessions to Japan on certain manufactures on the same basis.

It is not possible to sustain the contention that a general multilateral free trade or a drastic all-round lowering of tariffs are more feasible or likely than limited, reciprocal, and co-ordinated commercial concessions.

Objections were especially sharp against the Association Agreement of the Common Market with certain African countries. These provide for large-scale aid on the basis of a customs union, with the underdeveloped areas having the right to impose protective measures unilaterally to stimulate industrial or other development. This arrangement would be favourable to the latter except for the doubt

whether or not the African countries have the right to give each other greater preferential concessions than they give to the fully developed members of EEC.

It is probable that a complete customs union between them, associated to Europe as a unit, would not be excluded under EEC treaties. Unfortunately, the countries of Africa show great differences in income and productive capacity between each other. A complete customs union between them would not be possible until a purposive regional planning of investment and partial tariff concessions, as well as migration, ranging over a long period of years, have equalized opportunities. Such preferential arrangements, however, would bring them up against GATT and IMF rules. If, as a result of a failure to grant them the right to such discriminatory practices, the poor countries are forced to grant non-discriminatory rights all round, it is probable that national protectionism will be forced on them, in which case the Association Agreement would represent a deadly danger. They would be unable to form economically effective markets which could industrialized with any hope of being able to sustain high living standards.

THE ELEMENTS OF A SOLUTION

The Demand Side

It would seem foolish to expect that advanced countries will permit an increase in the exports of primary producers, especially of commodities and manufactures competitive with their own industry, so long as they suffer to any appreciable extent from unemployment. This means that the problem of the wage-inflationary trend will have to be tackled. So long as wage and price increases terrify authorities in the fully developed part of the world, a balanced approach to the problem of helping the poorer areas through increased trade cannot be solved, and suitable economic growth at a reasonable rate will not be attained. This implies a fundamental change in internal policy in industrial areas.[13]

International monetary reform to provide for increased liquidity should be attempted as a first step towards establishing an effective central banking mechanism. *One of the most important requirements*

[13] I have discussed the problems involved in my pamphlet 'Planning for Progress', Fabian Society, 1963.

would be, within this reform, to provide for a penalization of persistent creditors. This was initially contemplated by Keynes but unfortunately dropped out of sight by the time of the Bretton Woods Conference, and the practice after 1956 was quite openly discriminatory against the debtors. One of the possible solutions would be to provide for a compulsory lending on a long-term basis of the increases in liquid reserves beyond a certain point, or beyond a certain time, by the creditor to the International Bank. Another possibility would be to put the scarce-currency clauses of the Bretton Woods Agreement into effect.

The Supply Side

The Prebisch thesis on the unequal distribution of the yields from increases in productivity between manufacturing and primary-producing countries rests, as we have seen, on the sociological framework in primary-producing countries. Both under feudal latifundial and minifundial peasant communities, the opportunity cost of producing cash crops is very small. In other words, there is no profitable alternative crop. Hence production does not adjust itself to falls of prices in the same way as it would in manufacturing. Even in rather rich primary-producing areas, we find that falls in price are answered by increases in productivity and effort.

If this analysis is correct, only far-reaching industrialization will enable countries to free themselves from the grip of poverty.

One of the most essential further tasks is the elimination of unnecessary middlemen and restoration of the direct relationship between the peasant and the market. The first requirement of this is to establish marketing boards which cut out seasonal fluctuations. This will also enable rural credit to be organized, and the peasant to be freed from usury.

Given the technical revolution going on in applied biology, it would seem rash to give subsidies through guaranteed prices rather than through reorganization of production and technical aid.

Planning for Progress

Much the most important task is to *maximize* the aid given to the poorer areas and to take measures to ensure, as much as possible, its optimal use. It is to be hoped that a portion, growing with national income per head, of the resources of the rich will be devoted to aid.

Tied loans or even *loans in kind* must not be ruled out, *because they obviously increase the total resources which can be put at the disposal of the poor areas*, given the precarious balance-of-payment position in which 'rich' countries often find themselves. The alternative to a tied loan or a loan in kind is not an untied, freely convertible loan or grant, but a *reduction of the total* so as to take care of the possible repercussions of the grant on the balance of payments of the donor country. The present drift towards the commercialization of aid, very reminiscent of the bankers' orgy of the 1923–9 period, is already beginning to produce a situation of overborrowing. It would *seem to be essential that aid should take as much as possible the form of grants or soft loans;* the latter perhaps might be preferable because it seems easier to attach conditions to loans than to grants, and thus increase the effectiveness of aid.

In order to increase the effectiveness of aid, it would be necessary to create regional planning machinery, and ensure that both bilateral and multilateral aid is channelled on the basis of sound regional plans (see Section Four, Chapter Nine).

International monetary reforms should, in the main, be concentrated on the solving of the liquidity problem of the fully developed areas and so enable them to maintain high rates of growth. This is more likely to contribute to the solution of the problems of the poor areas than any other measure.

It has to be recognized, however, that a number of countries *will find it difficult to achieve full employment without export surpluses.* From this point of view, therefore, *it would seem to be* essential to obtain some resources for underdeveloped countries by enabling these countries to continue to have export surpluses. This could be achieved by the International Monetary Fund purchasing International Bank obligations to be re-lent to developing countries, or the surplus countries directly lending to the International Bank for the same purpose. *But it must be remembered that international loans will remain solvent only so long as a sufficient amount of grant aid flows to the underdeveloped countries.*

The GATT rules imply equality of opportunity between countries. In the absence of such equality they discriminate against the weaker partner. It has been suggested that there should be a general waiving of the reciprocity rules on the part of the developed countries in their liberalization drive so far as underdeveloped countries are concerned.

However, general non-discriminatory liberalization, even if unilateral, is insufficient so long as the underdeveloped areas are not grouped into units which can potentially support optimal industrial units. The problem can only be dealt with by providing a waiver of non-discrimination rules, provided the exceptions are notified to GATT or an international trade organization, and provided that the discriminatory arrangements permit an increase in the trade of an underdeveloped country. It would be especially important to plan establishment of new industries so as to be able to make sure of the feasibility of adopting modern productive techniques (adapted to the needs of the combined area) through mass-production. This means that so far as these new industries are concerned, free or almost free trade should be permitted. The extension of older industries might be undertaken in a balanced way on the basis of tariff preferences so as to compensate the relatively weaker areas in the underdeveloped region for the advantage they grant to the relatively stronger countries.

In the end, the establishment of a common market with sufficiently strong control organs capable of purposive planning seems the logical solution. The same waiver should apply to the relationship of the underdeveloped countries to one another. If this were done the present hindrances to common planning of economic development by underdeveloped countries would be mitigated. One might provide that, when development reaches a certain predetermined level, somewhat stricter rules could be applied, and at any rate aggrieved parties outside the area should have the right to demand compensation or alternative concessions.

TENTATIVE CONCLUSIONS

So long as the rules of international trade and international payments are based on a theory which itself is derived from the fiction of equal partnership between small and large, poor and rich, sluggish and dynamic, any endeavour to overcome the inequality in income distribution will be frustrated. No magic formula or economic gadget or policy trick exists which would deal with the worsening of the relations of the rich and the poor countries without fundamental long-term aid and development planning.

CHAPTER NINE

Frustration through Administration

THE STRATEGY AND TACTICS OF TECHNICAL ASSISTANCE

Economic progress in the underdeveloped areas of the world since the war has no doubt been impressive: far above the prewar rate. It should be noted, however, that the terms of trade of the countries of the region showed steady improvement until 1952, and even after recent setbacks compare favourably with those ruling between the Great Depression and the War. In this way, the poor areas were able to secure more supplies for their produce. Another important help was the disappearance, or at least considerable reduction, of the burden of foreign debt they owed prewar. Last but not least, there was a fundamental change in the attitude of the more privileged areas of the world to the problems of the less developed. In consequence, an immense amount of aid both in resources and technical assistance was made available to the poor countries.[1]

If all these basic changes in the factors affecting the capacity of poorer countries to undertake investment are taken into account, the results achieved seem disappointing. They are, as recent reports[2]

[1] American Government non-military grants and loans between the end of the war and the end of 1957 amounted to \$42·9 thousand million. Of this, \$1·0 thousand million went to the Near East, Africa, and Asia, and \$0·4 thousand million to South America. The Southern European countries benefited by \$3·1 thousand million. International technical aid between 1954 and 1957 amounted to \$6·5 thousand million, of which \$6·1 thousand million was bilateral (of which the US share was \$3·7 thousand million). Multilateral aid was \$0·37 thousand million. The International Bank lent \$0·4 thousand million net. Bilateral government loans amounted to \$2·5 thousand million net in the same period. Public funds supplied to underdeveloped areas amounted to \$8·3 thcusand million in 1954–7. In addition, there was some export of private capital, especially to Africa, the Near East, and South America, though much of the private investment was financed by ploughing back profits.

[2] For example, Professor René Dumont's *Report to the United Nations on Indian Rural Development*, 1939; also *UN World Economic Survey*, 1959 (especially the 'Preface'), and the *Interim Report of the Mediterranean Development Project* (FAO 57/10/6838), Rome, 1957, especially Chap. III. In recent

clearly bring out, insufficient, over the long run, to maintain a steady improvement in productivity and living standards in most underdeveloped countries.

To a large extent, this disappointment is due to the magnitude of the task and more especially the accelerated increase in population. The less than full use of the available resources, both domestic and outside aid, has unquestionably also contributed to it. In this respect again, a considerable responsibility must be attached to the domestic lack of entrepreneurial ability or willingness and administrative experience, which has been the motive power of economic progress in the more fortunate areas of the world.

However that may be, it can hardly be doubted that defects in the organization of foreign aid have also played a role in this disappointment. Some of these defects stem from the less than perfect co-ordination of the planning and channelling of foreign aid. The fact that aid was limited by budgetary conventions to short periods (mostly annual), and often consisted of surplus goods, or was otherwise tied, contributed to the problems. Failure completely to appreciate the functions of that aid, especially technical aid, in the pattern of the domestic development policies of the countries aided was another important factor. It must be remembered that foreign aid – however vital it is in minimizing the economic strain and social upheaval imposed by the effort at development – can only provide a marginal contribution.

Foreign aid, however, could help in widening the horizon of the poorer countries and make it possible for them to invest in projects which, however necessary, bring forth revenue only after a long interval. This is especially true of investment in soil conservation, which could otherwise not be undertaken without grave risk of an immediate fall in the standard of life that might threaten the willingness and enthusiasm for development. Foreign aid could also help poorer countries to avoid the compulsion by which, in some countries, such cuts in the standard were enforced, or large-scale investment was undertaken. It thus does represent a possible alternative to harsher methods of mobilizing the only available reserve in productive power of these countries: the mass of unemployed or underemployed.

months, several attempts have been made to reassure the non-Soviet countries on the prospects of self-sustaining growth in their orbit in contrast with Communist countries. These attempts seem to lack empirical foundation and can only do grave disservice to the cause they profess to uphold.

Here, attention will be entirely concentrated on one aspect or part of foreign aid: the provision of technical assistance, of technical knowledge, either by way of assigning foreign experts to countries or by financing the training of domestic personnel. It is, of course, obvious that on a number of points what can be said on this aspect is also applicable to the organization and direction of aid in terms of resources, i.e. either financial or supplies of (surplus) commodities. Much of the experience on which my argument is based derives from the Mediterranean Development Project, on which I was engaged for over two and a half years. But this experience seems germane to the pattern of the problems of all poor areas of the world.

BASIC STRATEGY: THE KEY SECTOR APPROACH AND TECHNICAL AID

The strategy of foreign technical assistance is determined by the pattern of the development planning. If totalitarian control over the whole economy of the receiving country is to be avoided, it will not be possible to provide in detail simultaneously for every part, and initiate consciously co-ordinated changes which, in their summation, give a balanced development. What might be done is to give an impulse by an investment programme – whether in the so-called infrastructure[3] or in other sectors, is immaterial in the present context – in the expectation that this impulse could be so directed that it will positively affect other sectors. In other words, the response of these other sectors (industry, agriculture) would have to consist in expanding employment or increasing productivity so that the original impulse would start to create the vestiges of self-sustained growth instead of either slowly petering out or resulting in a speculative, inflationary movement, hoarding, and imbalance. The choice of the sector, the availability of foreign help, the existence of reserves of resources and especially of flexible uncommitted entrepreneurial or administrative ability will determine the strength of the impulse which can be imparted without risk, and thus the safe rate of growth.

[3] The public investment necessary for the development of modern industry and agriculture such as health (possibly including housing, drains, and water), education, transport, power, etc., but not itself 'productive'.

This problem of whether simultaneous action on all sectors, promoting what has become known as balanced growth, represented a possible or even the best solution, was discussed in the Interim Report of the Mediterranean Development Project (see pp. 213–20).

Our conclusion was that no general answer could be given about the choice of the sector, the relative strength of the impulse and the resulting temporary imbalance. The social conditions in underdeveloped countries differ so much from one another that the tactics have to be adapted to the varying conditions.

It is in the context of the general strategy of economic development that technical assistance acquires its own importance: it will have to be the main weapon helping to provide the technical knowledge and possibly the administrative experience necessary if an impulse imparted through an investment programme is to broaden into a self-sustaining growth. It will vitally contribute to the creation of the framework for expansion.[4] In most countries, unused margins of productive resources exist which cannot be utilized (or rather which governments do not dare to utilize) because of the fear that the constriction on the expansion of other sectors (especially agriculture) would make inflation and a balance-of-payments crisis inevitable.

Provided appropriate institutional and political measures are taken, with some help from abroad, these hindrances against expansion could be eliminated, and the dangers which are now impeding action avoided. Once it can be utilized, the margin of productive forces seems amply sufficient to lead countries out of their present difficulties and on to the path of cumulative expansion. Even at present income levels, investment in productive assets could be much increased[5] without endangering the balance of payments. With more productive investment the large reserve of underemployed manpower would become the region's most valuable unutilized asset.

There is thus a vital part that technical assistance can play in

[4] From this point of view, the countries of the Mediterranean are in a favourable position. As the Final Report (Rome, 1959) as well as the country studies clearly show, considerable margins not only of manpower but of other productive resources are available within most countries (see, for example, *The Country Report on Greece*, Rome, 1957).

[5] In the Mediterranean, for example, productive investment could be expanded by as much as one-third, and perhaps one-sixth of foreign exchange spent on imports could be saved by eliminating non-essential and luxury expenditure. Unfortunately, the mechanistic-monetary approach of OEEC and the International Monetary Fund has completely obscured this, most hopeful, escape from the setback and stagnation threatening this vital area.

increasing the flexibility and the potential for expansion and economic progress of those crucial sectors – especially agriculture – on the behaviour of which the future of development depends. It might therefore make all the difference between the success and failure of development planning in the poor areas of the world.

THE TACTICS OF TECHNICAL ASSISTANCE

In order that technical assistance should be able to fulfil this vital role, certain basic requirements must be fulfilled. (i) In the first place, it is essential that the assistance should be based on a comprehensive long-term programme of development, and closely co-ordinated with aid in terms of resources (either financial or in commodities). (ii) And in the second place, it should be foreseeable, so that countries should in their turn be able to evolve plans for their own efforts in the secure knowledge that a foreseeable amount of help will be made available.[6]

The Need for Long-Term Surveys

The first of these is self-explanatory. If technical aid is to have maximum effectiveness, it must be used to strengthen the impulse imparted by the primary-investment programme (partly sustained or initiated by foreign aid). By rendering the sectors outside the propulsive spearhead immediately affected more flexible, two important purposes might be achieved. In the first place, the possibility of a self-sustaining process of growth might be created, and through this the 'absorptive capacity' of the community, i.e. its capacity to make effective use of foreign aid, increased. And it would, in the second place, by expanding production itself, contribute to the means available for further expansion.

Only if domestic and foreign means were unlimited would an overall surveyand acareful elaboration of priorities to fita coherent sector and time-pattern of development not be required. Means are in fact extremely scarce both in the national level and in the level of foreign assistance.[7] Their optimum use is therefore essential. This does not

[6] This is, of course, equally or even more important for aid in terms of resources, i.e. loans and grants.

[7] Technical assistance appropriations actually fell in 1958 after an at first rapid, and then slow, rise. This contrasted with a steady increase in costs. Disenchantment with the results achieved might be a factor in this disappointing trend.

mean that a maximum economic yield could or should be the criterion in deciding on the employment of aid or of national resources. The decision about the shape of a development programme is a political one and can only be taken by the government concerned. It is essential, however, that the government (and the international or foreign agency, e.g. the US ECA) responsible for the administration of the aid should be made fully aware of what they are doing. They must have some notion of the alternative employment of resources and the implication of these alternatives in terms of the size of the increases in income, and in respect to the distribution of that increase both between different sections of the population and different parts of the country. Such an analysis will also give an indication as to whether the proposed employment of resources is likely to lead to self-sustaining growth or run out without much effect.

This awareness of alternatives, which is thus essential, is plainly impossible without a general survey of the economic and social position in each individual country and in the region of which the country is climatically or historically a member. Three formidable difficulties are encountered in satisfying this requirement on the national, or the international, and on the administrative plane. I shall treat these, inter-related though they are, one by one.

The Difficulties of Rational Programming

On the National Plane

In the first place, it is plain that the governments most in need of help are least able to take a detached and long-term view of their problem as a whole and fit particular projects into an overall scheme assigning a well-considered priority to each, and fitting each into a coherent pattern to produce the maximum contribution. They are overwhelmed by day-to-day problems and feel under intense political pressure to deal with these and let the morrow take care of itself.

There can no longer be any doubt that in a large part of the world this attitude must lead to certain ruin as the population increases and the waste of soil reduces food supplies. The procedure of the international agencies, based as it is on the assumption that it should be left to the governments themselves to elaborate the details of the assistance schemes, is fundamentally inappropriate for the optimum use of resources.

On the Inter-Agency Plane

A second obstacle to a successful programming of foreign aid is represented by the multiplicity of the agencies responsible. This multiplicity is not accidental: some of them are bilateral in character, i.e. they involve a relation between the two governments giving and receiving the aid; some are multilateral, i.e. between international agencies and the recipient governments. It would be politically impossible to rationalize them. Moreover, the founders of the international agencies, for good or ill, have given them far-reaching autonomy within but restricted them by their constitution from looking beyond their particular specialization.[8]

A number of committees have, no doubt, been provided for co-ordination. But, as they represent meeting places of autonomous agencies and not superior bodies with power to enforce decisions, it seems that they work better in defining demarcation lines and settling differences on that plane than in carefully adjusting positive activities in each field to priorities evolved for a plan of action based on overall analysis.

The International Bank has from time to time undertaken comprehensive studies of various countries. And the Regional Economic Commissions of the UN (especially for Europe[9] and for Latin America) have made country and even regional studies, in some cases in co-operation with some of the specialized agencies. All these reports were of a high technical competence. A Technical Assistance Board has been established which is supposed to co-ordinate the technical assistance activities, at any rate of the UN organization.

Nevertheless, technical assistance programming has hardly ever been framed or remodelled to accord with the conclusions of these studies or to try to carry out comprehensive programmes. The Technical Assistance Board consists of representatives of the agencies

[8] It should be noted that this multiplicity and autonomy has much to be said for it: it permits a lack of uniformity which under the present circumstances is an invaluable (if incomplete) substitute for democratic control. Like the colleges in the two ancient universities of Britain, some flexibility in policy and choice of personnel is thus safeguarded which in a more streamlined system might be replaced by unthinking conformity. The history of the economic department at UN headquarters (and its influence on the Regional Economic Secretariats) leaves no doubt of the importance of preserving international agencies from monolithic control.

[9] 'Report on Southern Europe', *Economic Survey of Europe in 1953*, Geneva, 1954.

acting in an ambassadorial capacity. Its independent chairman has only limited powers over marginal funds and inadequate staff to enable him to modify proposals substantially. The Director of the Special Fund, even more recently set up, has wider powers but, as we shall see, has interpreted his functions in too limited a way to effect a change. Control over all these bodies is tenuous.[10]

It might not be unfair to say not merely that the majority of the specialized agencies do not take the implications of their recommendations for the general position into account but that they would strongly deny the need to do this.[11] They are firmly convinced that by concentrating exclusively on their technical specialization they can perform their task satisfactorily. The question of how this advice, restricting itself on a certain technical specialization, is to be fitted with the other similar technocratic visions emanating from competitive agencies is a matter which has received surprisingly little attention.[12]

This attitude must result in a somewhat competitive approach to technical assistance. The dominance of a technocratic approach thus becomes inevitable. A rational selection of projects becomes a matter of luck. There is no common ground on the basis of which balanced programmes could be evolved and resources shifted smoothly as needs and situations change.

[10] The control over these agencies by the various organs of the UN Assembly and the superior bodies of the specialized agencies does not correspond to parliamentary control: there is no opposition party trying to criticize programmes (including those of the national governments) from the point of view of the ultimate recipients. The relationship is between bureaucracies, and the political element is superimposed and mostly dominated by high international policy rather than technical considerations. These problems, however, open up vast fields of controversial matter which cannot be discussed in this context.

[11] This has been frankly stated in the Administrative Co-ordinating Committee of the UN. The recommendations are framed with a view to technical excellence. This means that they are often out of line with practical possibilities, and might represent an actual threat to the undertaking of more urgent tasks.

[12] A horrifying example was the report of a UN FAO Special Mission to Malta in 1955, which recommended a programme costing each year more than the whole net output of Maltese agriculture, and which would have absorbed something like a quarter or more of total resources available, completely disproportional to the contribution, less than a twentieth, expected from agriculture. When asked to give priorities, the surprising answer was: cut all items proportionately.

The organization of FAO, under its first three Director-Generals, was typical. No programme research department was established. A loose confederacy of great feudatories was built up in uneasy competitive relation with one another, which did not share their budgets or let each other know of unexpended surpluses. The recent reorganization of FAO is the result of the outstanding ability and courage of the new team of leaders.

On the Administrative (or 'Processing') Plane

The very nature of the administrative processes inevitably involved presents serious difficulties. Assistance projects, whether technical or material, must necessarily be negotiated, and 'processed' administratively, one by one, by the operating departments of the various providing governments and international agencies and their mission heads or country representatives, on the one hand, and the recipient governments, on the other. It is, therefore, difficult to fit them into a preconceived programme. Both political wisdom and administrative convenience must strongly tempt all concerned to leave well, or even ill, alone and not to question the request of the receiving government.

Compliance is the more tempting as it is difficult to find manpower capable even of serious scrutiny of the proposals of the recipient governments, and to fill the multiplicity of liaison posts which is a necessary consequence of the multiplicity of agencies. In the case of international agencies, there is, moreover, the awkward problem of maintaining balance between the various nationalities. This is not as acute in the case of 'field-experts' as in that of permanent appointments, but it is troublesome. No satisfactory system has been evolved to test minimum ability by way of some sort of anonymous competitive examination. Recruitment is inevitably haphazard. Moreover, the representative of a specialized agency in a recipient country is usually the most senior expert in that country of the agency concerned.[13] There is, of course, no reason why a specialized expert should be able to represent his agency adquately and have the diplomatic skill, political sense, or general economic knowledge needed if his advice on programming is to be valuable.

The Waste of Effort

The failure to base specific recommendations on a careful general survey of the position and needs of the countries to be aided must necessarily lead to waste and frustration of much effort. In many cases, the recommendations were framed without due regard to the general capacity of the country concerned or to political possibilities.

[13] In some cases, the Technical Assistance Board representative was entrusted with this task with much better success.

In some cases, the lack of co-ordination between the recommendations of various agencies resulted in an overall excess of demand in the programmes put forward over total resources available. In some cases they were based on contrary political presuppositions.[14]

In consequence, technical reports are often pigeon-holed. The waste of opportunity is substantial. The fact that specialized agencies are necessarily in contact with the ministry in charge of their own specialization (e.g. UNESCO with the Ministries of Education, FAO with the Ministry of Agriculture), which might not have the necessary general influence in the government to make the requirements of that sector duly felt, naturally adds to the difficulty.

The position of FAO in this respect is perhaps more anomalous than that of any other agency. In practically all countries which need technical assistance, agriculture provides 60 per cent. or more of total employment directly and very much more indirectly. Given the pressure of rural overpopulation, it is impossible to come effectively to the aid of these countries unless the general economic and social situation is relieved. Rural welfare and agricultural productivity cannot be separated from overall economic policy in countries where agriculture plays so predominant a part.

In order to be effective, programming of agricultural technical aid can be done only on the basis of a full appraisal of the needs and possibilities of countries. Most governments, if they were approached with a well-worked-out programme and suggestions, would almost certainly respond favourably. The favourable reaction in many recipient countries to endeavours to evolve programmes on the basis of more general appraisals, undertaken by private foundations for instance, proves this. They are well aware that a system of allocations which is based on the efficiency of the preparatory work undertaken by governments themselves will not, in many cases, work well. The need for technical aid arises, after all, partly because of the deficiency in administrative experience and capacity.

This has also been recognized in a report of the Technical Assis-

[14] Not the least damaging of these 'specializations' is the mechanistic-monetary viewpoint (so sharply criticized in this country by Lord Radcliffe's Committee), which has been steadily gaining ground in the advice offered by the International Monetary Fund. As this advice is backed by resources (and the sanction of disregarding it might include refusal of funds by the US and other agencies, e.g. OEEC), the possible mischief is the greater. Their disregard of overall development requirements in Spain and Turkey might have catastrophic consequences. In South America, it has already caused violent revulsion, the further political consequences of which are unforeseeable.

tance Board to the Technical Assistance Committee of the UN Economic and Social Council.[15]

> Past experience has shown that technical assistance tends to be used most effectively where there is a comprehensive national development plan or programme. Progress in this direction is slow, however, and in most countries such integration of technical assistance as occurs is with partial or sectional plans. It is encouraging that a significant number of countries is receiving assistance under the Expanded Programme in the formulation of both national and sectional development plans.

The Budgetary Constriction

Even if the problem of coherent overall programming is solved, it can hardly be made effective if uncertainty continues about the amount of aid available beyond a period of a single year. No government is able to make rational plans under these circumstances.

A solution would imply a modification of the budgetary traditions both of national governments and of the international agencies, which ultimately depend upon them for finance. These traditions confine commitments to an annual, or at most bi-annual, basis which is blatantly insufficient from the viewpoint of effectiveness. The best possible solution would be that proposed by the British Labour Party, which pledged itself to make available 1 per cent. of the national income for aid to underdeveloped countries. On this basis, national allocation could also be worked out for longer periods.

This solution is not unfortunately at present likely to commend itself to the governments of the highly industrialized areas. Therefore two other possible ways out of this grave difficulty can be envisaged. The first is that commitments by national governments should be voted through a special budget or national fund which in its turn could make longer-term commitments. Alternatively, it would be possible to establish an international fund to which the national governments would subscribe as the occasion demanded.[16]

[15] UN ECOSOC *T.A.B. Report for 1958*, p. 5, col. 1.
[16] The latter method has been adopted for the 'Special Fund'.

THE ORGANIZATION OF PROGRAMMING

General programming can only be evolved from a careful national analysis of the economic and social problems confronting the country to be aided, both within a national and a regional and international setting. Such analysis ought to be a valuable means of fostering the adoption of policies calculated to accelerate development, or at least to eliminate unnecessary hindrances to economic and social progress.

In many cases, this will be welcome to national governments who labour under the pressure of vested interests opposing overdue reforms. It should also be useful to such international agencies as the Bank and the proposed SUNFED, which have command over resources and whose influence might be brought to bear on the policy-making bodies.

Some of the problems involved are not easy to solve.

Creating a Programming Department

In most specialized agencies no department capable of performing the task of regional-development analysis exists. In some of the agencies, like FAO, whose activity embraces a large part of the economy of the countries, this will certainly have to be (and is being) remedied. In this case, the Technical Assistance Office might be expanded to become a liaison office, divided into geographic desks and in close contact with regional offices and representatives. It will be essential, if this conception is to be implemented, to have first-class applied economists to take charge of the regional development research unit in each agency. Such a technical assistance planning office must be directly under the head of the specialized agency, as otherwise vested interests in separate departments of the organization might make their influence unduly felt on programmes, and thus reduce its effectiveness. It must advise the head on the requirements of the various countries concerned, and the ways and means (including personnel) available.

What of the agencies whose competence is insufficiently broad to require a separate department? The logical solution is to call upon the agency in charge of general analysis and (technical assistance), i.e. the UN and its regional organizations, to perform the task of preparing

these regional analyses based on careful national appraisals. In this work, they ought to lean for technical information on the specialized agencies without being dominated by technocratic considerations or being unable to repress the understandable eagerness of agencies and, indeed, of each division of the specialized agencies, to push their own specializations irrespective of overall needs. Even agencies which establish special analysis and programming units should work in closest contact with the regional organizations.[17] The Regional Economic Commissions are (or should be) the specialized experts in the general problems of their region. The latter should also be made responsible for the training of applied economists for the government services of the poor areas. The universities in underdeveloped areas have unfortunately developed far too exclusively in a 'pure' theoretical direction to be able to perform this task successfully. The only training scheme now in existence, that of the International Bank, is unfortunately far too monetary and econometric in orientation to be of much use.

A further important requirement is the establishment of a 'Central Register of Reports' of the technical experts, duly excerpted and cross-classified.[18] It is essential that technical assistance experts called to do similar types of work under similar conditions should be able to look up quickly, and without backbreaking effort, the background material they have to digest quickly if their work is to be effective and if they are to avoid repetitious pitfalls. Finally, experts whose work affects more than one agency or department (and few do not) should not be 'hoarded' by the commissioning agency but put into touch with those who might help or who are affected by their advice.[19] A central register of assistance reports is a condition of a scientific system of programme planning and evaluation.

Inter-Agency Co-ordination

The regional appraisals and the country reports which would emerge from this collaboration would have to be discussed at first by the

[17] FAO has units linked with the Regional Economic Commissions.

[18] The registry system for correspondence of most international agencies leaves much to be desired. In consequence, there is much confusion and action at cross-purposes. A commission to advise them is sorely needed.

[19] An expert on land reform must not disregard the impact of his recommendations on technical improvements in agriculture or the employment situation in general.

agencies between themselves and then with the governments concerned.

As to the former, it would seem desirable if a permanent expert representation of the specialized agencies at the Technical Assistance Board (in contrast to the *ad hoc* 'ambassadorial' envoys negotiating yearly budgets, which has been discussed above) could be created. If the TAB had the necessary expert advice, and if it could call on the regional officers, it could be increasingly used to help in establishing priorities. It might, in the end, also help to co-ordinate bilateral aid with the activities of multilateral agencies.

For this purpose, the Board's Preparatory Commission, which is now mainly administrative, might be strengthened by the addition of a new 'Programme Preparatory Committee' formed from social and economic analysts. Differences of opinion will prove inevitable, especially between the technical agencies on the one hand, and the financial ones on the other, and in some cases these will be overcome only after lengthy discussion. But these differences will at least become conscious. It should be said that the 'technocracy' of the financial agencies, and especially of the International Monetary Fund, which believes that it can deal with the intricate social problems of development on the basis of a simplified form of the quantity theory of money, is even more embarrassing than that of the agencies dealing with more 'earthy' or concrete issues such as health or the growing of food.

Liaison with Governments

If this evaluation of the defects of technical aid is accepted as valid, the present 'project-by-project' approach would change. This would imply far-reaching reorganization, not merely at headquarters but also in the machinery of both the UN and the specialized agencies for liaison with governments.

It would seem to be essential that the representation of the whole UN family of agencies in each recipient country should be in the hands of one man, trained for the job, having both diplomatic capabilities and a general knowledge of political, economic, and social issues, and more especially, able to give advice to the regional offices and headquarters of UN and the specialized agencies on general programme questions. This would be preferable even from the narrowest angle of specialized agencies: in this manner, these agencies would be

able to get past the specialized Ministries: they would be able to perform their work more satisfactorily if they could, in this way, enter into intimate contact with the Ministries which have the power, because they are responsible for finance and economic programming. This might not be essential on the regional planning level. It certainly is vital in the national framework where the ultimate decisions have to be obtained.

Thus the organization scheme for each international agency would comprise a headquarters programming department consisting mainly of trained economists who would be in touch with their own separate regional offices and single, common resident country representatives of all agencies in each country. It would be advisable, if possible, that regional offices of the various international agencies should be located near enough to one another for close contact.[20]

In order to increase the expertise, and the intimacy of collaboration, staff-college courses ought to be organized so that these common TA country representatives are made aware of modern economic and social thinking and the approach of each specialized agency. It would be advisable to hold periodic regional economic conferences at which the approach of various agencies can be discussed in confidence and with the utmost frankness, and attempts made to coordinate operations and iron out differences. It would be equally important to obtain the views of experts of varied shades of opinion of the region. In this respect, again, the Regional Economic Commission might play an essential role.

If this proposal were to be accepted, safeguards would have to be introduced to make the UN Technical Assistance Resident Country Representative representative of all specialized agencies, i.e. prevent his being entirely dependent on and partial to any one.

If the work of the UN resident country representative expanded too much to be manageable by one person, specialized agencies with special interests or much activity could appoint attachés joined to his office. In order to avoid a recurrence of competitive agency exclusiveness, however, all communications ought to be channelled through the common resident country representative.

In order to provide an effective representation of sufficient standing of the special agencies at country level, important negotiation with countries might well be entrusted to the regional representative of the

[20] It is regrettable that this did not happen even in the case of Africa, where regional offices have only recently been organized.

specialized agency (as contrasted with the country attaché). Their standing and effectiveness is far greater than that of the present specialist agency country representatives and they could safeguard the interest, if need arose, much more effectively. In that case, however, regional offices must be suitably strengthened with good economists in close touch with the UN Regional Economic Commission research departments and the specialized agencies' headquarters programme department. They should keep headquarters and field staff currently informed. The present position of the Executive Chairman of the Technical Assistance Board would also need to be redefined in his relations with the heads of the various agencies, to give him greater powers to resolve differences.

In this way, the work of headquarters regional organization and country represnetatives would receive expert co-ordination, and a beginning would be made to give an example to the recipient government to whom so much well-meant, but only loosely co-ordinated, advice is now offered. It would render technical assistance more effective, enhance the reputation of, and make the international agencies more effective, both in giving the right advice and getting governments to accept it.

Loosening Budgetary Constriction

Some progress has lately been made in overcoming the constraint on rational programming caused by annual budgets. The TAC recommendation which makes the welcome proposal that TA programmes should be established for two years is only one of the steps taken. The establishment of a special fund, which might be regarded as an experimental forerunner of more decisive efforts (such as SUNFED), is another.

This has lately been followed up in the United States by the creation of a fund which can be committed for a period of years. The representatives of the UK have also indicated that they might be willing to commit their contribution to the alleviation of this position in underdeveloped areas for a longer period ahead.

These measures represent substantial progress toward more rational programming. Unfortunately, in its first allocation of resources, the Special Fund has retained the project-by-project approach which seems common sense and really leads to nonsense. It has refused to underwrite 'investment' when in fact pilot projects,

insufficiently large to be supported by the Bank, seem to most competent experts the best way of achieving quick progress and obtaining maximum popular participation. It has therefore supported a number of water-resource surveys (and others), mainly because well-worked-out proposals were available and they did not represent 'investment'. As a temporary method in the first phase of its existence, this procedure might be defensible as enabling prompt action in a period when technical assistance allocations are falling and a disbandment of expert teams threatens. But in future, the Special Fund and the Bank ought to be the spearhead in the demand for comprehensive surveys. This is the only guarantee that the funds voted will not be misallocated and wasted, but will be channelled in such a way as to to gain maximum response.

Too much importance must never be claimed for formal administrative organization or its reform. The quality of advice ultimately depends on the quality of the experts and not on organization charts. But the work of the experts can be facilitated and their choice improved by the proposed reforms. It is a matter for congratulation that FAO has, in this, as in other matters, given a firm lead.

CHAPTER TEN

The Economics of World Tension

Successful co-existence of capitalist countries with the Soviet bloc depends on the realization in the former that the non-totalitarian economic system has been put on the defensive.

The rising standard of comfort and ease in rich capitalist countries and the lessening of class bitterness mask a drift towards productive inferiority in relation to the Communist bloc. Moreover, the contradictions in the non-Soviet world between the problems of the highly developed and those of the poor areas are likely to frustrate efforts to achieve stability in the former and make it difficult to bring effective aid to the non-Communist governments in the latter. It is the long-run menace to the existence of the latter which is, perhaps, the most dangerous threat to the present efforts at relaxing world tension.

In the rich countries, there has been a return towards the policies of the pre-war period, in which rising prices lead to insistent calls for restrictive monetary action – no other weapon being available to governments which are pledged to economic 'freedom' and the abolition of discriminatory controls. This return to the dominance of monetary control has had two bad consequences.

Internally, it has tended to create social tension, because the policy is based on efforts to weaken wage demands by creating unemployment. This tension is increased by the fact that the revival of demand, when it becomes politically necessary, is stimulated mainly by the artificial creation of new needs, by the doctrine of 'psychological obsolescence', which creates a sense of frustration when the satisfaction of balanced social priorities is neglected. The richer the country the more dangerous and embittering can be the frustration.

Internationally, an anti-inflationary policy in highly developed areas has had the effect of undermining the earning capacity of the less developed areas by reducing the demand for their products. This exacerbates the poverty, which is basically due to shortage of equip-

ment and to the relentless acceleration of population increase caused by improved public-health policies; these have reduced mortality rates without much hope of an early fall in births. Non-Communist countries, moreover, have not mobilized their vast under-employed rural manpower for productive investment.

In comparison with these factors, the problem of armaments expenditure is of minor importance. But, at any rate in the United States, this kind of expenditure is being widely encouraged as the only safe way of increasing government outlay and so sustaining expansion. To call for an increase of social expenditure on education, say, or health or the underdeveloped areas seems to be considered politically dangerous. However, armaments themselves do not make war; it is the sociological effects and moral implications of this attitude which may become damaging to the cause of the 'West'.

These problems are not necessarily inherent in the private enterprise system as such. They could be solved without doing irremediable harm to basic individual rights or changing the character of the system. Unfortunately, there seems to be no immediate prospect of the pragmatic approach that would be needed to tackle them. The dogmatic fervour which has overtaken Western governments seems to doom us to frustration and might condemn us to defeat. On the other hand, the underdeveloped areas face a very grave set of problems arising directly out of their stagnant poverty and the seeming inability of non-Communist systems to tackle this successfully. In a world which is rent between the Soviet and the non-Soviet blocs, it is foolhardy to tolerate an increasing division of the latter between rich and poor areas. Worse still, politically, is the fact that most of the areas which are rich are white and those which are poor are non-white. If we fail to deal with this poverty, the existing power equilibrium in non-committed areas might alter seriously against us.

Present policies, unfortunately, far from mitigating, exaggerate this divergence in living standards, though the propagandists of *laisser-faire* economics strenuously try to divert attention from it. In the highly developed countries, it was those institutional reforms which collectively go under the name of the 'Welfare State', and which include a system of progressive taxation, that were able to defeat the growth of inequality. Without them the gloomy Marxist prediction of an increasing contrast between riches and misery would have been fulfilled even in the great non-Soviet industrial countries. The absence

of any risk of internal subversion would not have been as clear as it is now. The international economy knows none of those majestic powers possessed internally by a modern State; thus international inequality is still on the increase.

Communist Mobilization

There is a sharp contrast between the relentless mobilization in Communist countries of vast manpower reserves for productive investment and the feeble efforts which the poorer non-Soviet countries have hitherto made, even with the substantial international aid in resources and technical knowledge which has been supplied to them. This raises a question of far-reaching importance: does not the approach to economic development adopted in the non-Soviet countries, including the organization of technical assistance, need thorough reappraisal and reform?

On the other hand, it should be said quite categorically that an economic solution to these problems cannot by itself guarantee that adverse shifts in the international balance will not occur. Exasperation with the status of political and racial inferiority, which the economic trends consolidate, clearly may make Communism attractive to people who have never had opportunities to enjoy democracy. But it would certainly be foolish to hope that slight increases in the standard of life, without increased self-confidence and hope, would be enough to reduce discontent; profound institutional changes have become inevitable.

I shall deal first with the problem of the relative failure of growth in the highly industrialized non-Soviet countries, because its causes, psychological and technical, as well as its effects, touch on almost every other problem that needs to be discussed in the context of peaceful co-existence. The relative failure of growth of the West is due to the policies which have been pursued in the past few years both in the US and in Britain. These policies themselves are a reaction against the continuous rise in prices since the outbreak of the Second World War. The domestic political importance of this rise can no longer be doubted. It has brought down governments in America and in Britain. Relative price stability – even though purchased at the price of relative stagnation and the plight of the poor areas – is one of the conservatives' main claims for support on both sides of the Atlantic.

The upward spiral of prices and wages can be dealt with either by a deliberate agreement which would limit the increase in wages and profits; or by a weakening of the trade unions – either by direct political menace or by deliberately cutting demand. The former would necessitate far more conscious planning and intervention than would be contemplated by Western governments at present. The high cost of the latter is not yet understood.

In order to conceal or evade the painful inevitability of this fundamental choice, a great literature has grown up which pins its hope on creating, by purely monetary, or at most fiscal, controls, conditions where employment and growth would be fully maintained, while demand would be sufficiently restricted to cut out 'inflation'. The futility of this hope has become only too obvious during the last recession, when the increase in domestic costs continued relentlessly. Germany and France have solved this problem because the weakness of their trade unions has permitted the maintenance of demand by export surpluses. The problems of the Anglo-Saxon countries are not amenable, without a profound political crisis, to this solution: hence their very different attitude to the relations of tension.

President Eisenhower and his big-business friends are believers in simple rules based on individual morals. Applying these to public finances is primitive and wrong-headed; yet there is more to this attitude than mere economic fallacy. Theirs is an instinctive feeling that if they did not live up to and enforce these false rules, certain socio-political consequences would follow which would be disastrous to their continued leadership. This true social insight has been completely disregarded by Keynes and his followers, who treated these matters as an exercise in economic logic and not as a balancing test between social forces.

Once it were to be admitted that economic affairs (even of a so-called free-enterprise system) could be systematically and consciously managed, economic destiny would become a matter of political decision. Monied interests would no longer be able to enforce social or even economic policies contrary to the pledges of political leaders by reference to the 'need to maintain confidence'.

Thus it would obviously be foolish to underestimate the sociological justification of this tactic, even though from the point of view of pure economic theory it is expressed in halting and contradictory terms. The economic logic of Keynes is perfect. What his viewpoint lacks is sociological insight.

The terrible hatred of Roosevelt in the United States, even though he saved the banking system and recreated profits, can be explained only in these terms. The banks hated to be saved at the price of having to accept the overlordship of the democratically elected government.

Opposition to liberal full-employment policies has, however, also developed on a more sophisticated plane. It is suspected that full employment might be incompatible with price stability in a free-enterprise economy, without conscious control of economic life. While these controls need not infringe personal freedom or dignity of a democratic constitutional framework, they are bitterly resisted by entrepreneurs, who have not hitherto had to explain or defend their decisions to anyone, or to endure their modification in the general interest. While organized labour protests against unemployment, it has not shown itself willing to state the conditions in which it would accept some conscious alignment of its wage demands to increases in productivity. The extension of public ownership in Britain has not succeeded in changing this attitude.

On this level of sociological insight, economic instability, slumps and unemployment, far from being useless waste, assume an important, indeed an essential, role. So long as slumps were 'naturally' recurrent, and the fear of unemployment was always round the corner, the countervailing power of employers' resistance to wage demands could mitigate the pressure on prices. More or less full employment and the growing concentration of economic power have both tended to paralyze the mechanism. On the one hand, trade unions and employers have become accustomed to a regular rhythm of wage demands which comprise the whole of the economy. The anticipation that wage increases will probably be granted all round is in itself sufficient to undermine the resistance of employers against granting them. They cannot lose by being accommodating and are likely to be hurt by strikes if they refuse. Price stability then becomes a matter dependent on the quantitative relation of wage demands to the increase in productivity. In most countries, and in most periods, wage demands have been higher, in some countries like Britain far higher, than the progress in production.

Price increases could thus be avoided only if an agreement were reached between the employers and the trade unions to limit wage demands to what the economy can afford without increases in prices. This is not impossible; but it is difficult, because wage restraint

involves a real sacrifice of, at any rate, an interim gain in the standard of life, i.e. a gain in the period when the increase in wages has not yet been matched by a general increase in prices. In contrast to this, any restraint on dividend distribution is not a loss in the same way: single owners can always recoup themselves and increase their consumption by selling part of the appreciation in their capital. Parity of sacrifice between labour and capital could be restored by various measures so as to enable the leaders of trade unions to justify wage restraint to their members. Among these measures, increases in direct taxation are perhaps the most important. The socio-political atmosphere which has been becoming dominant since 1951, however, is hostile to this type of solution, because it involves conscious planning and action on the social and economic plane.

The alternative solution, pursued since 1953, consists of producing periodically sufficient uncertainty and loss to shake the belief of trade unions and employers in the inevitability of rising prices and maintenance of full employment and thus break the spiral of increasing demand, wages and prices. It involves the deliberate creation of unemployment. Now, unemployment could be created by cuts in consumption. But the political trend which is hostile to conscious action frowns upon the instruments needed to cut consumption (e.g. sharp personal taxes). It decries them as contrary to basic human liberties. There remains then only a policy of dear money. The direct action of this type of policy is through shocks, through weakening the confidence of entrepreneurs in the future, and is, therefore, primarily directed against investment.

A community which relies on this indirect type of monetary mechanism to control its economic destinies must therefore inevitably be handicapped in its rate of growth as against other types of communities where the problem of price stability is solved either by self-discipline and mutual agreement on economic policy or by the *fiat* of a totalitarian government.

The Aim of Economic Policy

The general welfare and rapid progress of the community is still the proclaimed aim of economic policy. Freedom of markets, abstention from intervention, is advocated not as an end in itself but as the best means of reaching that aim. In fact, liberalization involves the abandonment of that aim and the substitution of the means to an end for

the end itself. In order to obtain majority consent to economic freedom, confusion is created between ends and means: rational choice between policies is made impossible by 'hidden' persuasion.

Nor is this all. In order to be convincing, the creation of uncertainty about the future must be repeated periodically – preferably at irregular intervals. Moreover, if the government – once the slump or recession has begun – comes to the rescue and restores full employment, the threat of unemployment will have to be repeated with increasing force to be effective. The fact that the 1949, 1953, and 1957 recessions in America have been markedly increasing in intensity is an ominous sign. The problem is complicated by the fact that threats of unemployment and decreased growth will increase trade-union militancy and adherence to restrictive practices, while the decrease in the rate of growth will lessen the power of the economy to satisfy their demands. From this must come the need for even stronger repressive measures of economic policy. In fact, manufacturing costs, in contrast to prices of food and raw materials, never ceased to increase even during recession. In Britain, the degree of unemployment needed to achieve domestic stability seemed politically intolerable. The outcome was a combination of continued inflation with lessened growth.

The trend back to Victorian rules, so strongly supported by the most influential vested interests, has had another hardly less important and hardly less ominous consequence. The maintenance of national income or demand for current production is no longer to be managed by the State according to a scheme of priorities decided by Parliament or Congress on the political level. It is to come about as a 'natural' outcome of individual decisions. So, if the growing wealth of the community cannot be redistributed towards its less privileged members by deliberate action because of the prevalent feeling against taxation, the outcome will probably combine an insufficiency of demand with a feverish struggle through advertisements and consumers' credit to induce people to consume.

In contrast to underdeveloped countries, where the consumption pattern of the rich expresses itself in maintaining vast hordes of retainers in domestic service and in the artisan class, the well-to-do in twentieth-century surroundings cannot exhaust their income in this manner. Even the sort of extravagant expenditure which was encouraged by the competitive spirit of a primary capitalist society in Victorian times is no longer available, because it is considered

vulgar. Consequently, a policy of retrenchment and reduction of taxes (falling mainly on the rich) must necessarily increase savings and reduce aggregate demand unless a mechanism is created to increase the propensity to consume.

Psychological Obsolescence

This mechanism is to be found in the intense advertising campaigns leading to the psychological, as contrasted with the physical, obsolescence of goods, especially of durable consumer goods. A feverish drive develops to create in people new demands, or rather to try to induce them to express their personality in commodities which have symbolic significances. Goods are no longer wanted for their usefulness but for what they mean, what prestige their ownership secures, what impressions they give, and what emotions they arouse in other people. Thus the tendency to satiety is effectively counteracted and demand is made practically limitless. Or rather, it would be limitless if the process itself did not involve saturation and reaction.

The increase in productive power, instead of being allocated to increased leisure, increased education, and increased general amenities without which leisure cannot be enjoyed, can yield profits only if new personal material needs are created. Collective needs, because they demand collective resources, tax revenues, or profits of publicly owned enterprise, are discouraged, and intense propaganda is waged against 'molly-coddling' through better schools, better hospitals, better libraries.

Thus, in the 'free' system, stability necessitates creating unemployment, while the maintenance of demand requires the stimulation of conspicuous consumption. A feeling of growing spiritual poverty and dissatisfaction as well as guilt, impatience, and aggression is inevitable in the longer run. The richer, the more successful the system, the greater the psychological *malaise*. The fact that the US voter has begun to be disillusioned is a significant fact (which the Labour admirers of Tory prosperity should not disregard).

If, then, the socio-economic dogma of uncontrolled markets has imposed a growing unbalance and spiritual dissatisfaction even within rich and highly developed countries, its impact on the poorer areas has been disastrous. In the first place, the dismantling of direct controls has had more debilitating effects in the poorer than in the rich areas. Their national income is far less evenly distributed than in

richer areas. They completely lack the social integration which comes through the Welfare State, and high, progressive taxation. Decontrol, therefore, has resulted in a dissipation of investment power, in favour of luxury building and luxury imports of Western durable consumers' goods, as the rich have used their new freedom to satisfy their desire for these conspicuous signs of eminence. The pressure of salesmanship of the rich countries, the prestige conferred by the possession of articles of conspicuous luxury (expensive cars, television, etc.) have aggravated the problem.

The fact that foreign – especially American – help was in many cases made dependent on decontrol (recent flagrant cases in point include Turkey and Spain) meant that these countries were, so to say, bribed by temporary relief (without due overall analysis of their problems) to accept policies which are in the long run bound to weaken their capacity to increase their standards. The growing hostility in Latin America to the activities of the International Monetary Fund is an eloquent proof of the grave dangers of this policy to the cohesion of the non-Soviet world. In addition, the scarcity of international liquidity may result in an active policy of restriction which would react sharply on primary producers.

The Buyers' Market

In the third place, the *malaise* in the underdeveloped areas has been aggravated by the worsening, since 1951, of the terms at which they can sell their produce in exchange for manufactures. Poor primary producers are notoriously in a weak bargaining position when the sellers' market disappears. They cannot easily curtail their production. They are, in most cases, unable to hold their produce even temporarily off the market in the hope of obtaining better conditions, because they lack both the financial institutions to help them to carry stocks and the means to store and manage them. Consequently, a system in which the highly developed areas periodically restrain demand by monetary policy, and the impact of this policy in primary-producing markets, necessarily causes a sharp deterioration in the terms of trade.

This impact is the more likely, as the long-run world market outlook for a number of primary products is not all encouraging.

Firstly, a technical agrarian revolution is going on in highly developed areas by which their productivity in the production of tem-

perate-zone food and raw materials is increasing at a rate faster even than industrial progress.

Next, far less ominous, far more easily remedied, comes another problem – agricultural protection in highly developed areas, including the efforts of the US Government to get rid of commodity surpluses without being willing to pursue a planned policy of economic expansion in the underdeveloped areas. The efforts of the US to curtail home production, while famine conditions obtain in very important strategic areas, shows the extent of the failure to understand the problem.

Thirdly, industrial progress has also had some unfavourable effects on primary producers. On the one hand, it has reduced waste, and therefore reduced the need for any given output of corresponding raw materials. On the other hand (and even more important), it results in the discovery of new and superior materials which displace the natural products by virtue of their cheapness, evenness of quality, and other advantages.

Last, but not least, tastes have changed – and the change has been accentuated by incessant advertising – towards highly manufactured durable consumer goods and against goods with a high content of imported agricultural products such as food or clothing.

Threat to the Underdeveloped Areas

Thus, primary-producing countries, after a short period of relief immediately after the war, are finding it increasingly difficult to start or sustain capital accumulation sufficiently to induce self-sustaining growth. According to the UN *World Economic Survey for 1958*, the poor primary-producing areas lost more as a result of the deterioration of their terms of trade than the whole of their foreign aid. At the same time, they are under a deadly threat of a rapid increase in their populations, which itself is the result of the medico-technical revolution which has been going on in the rich countries. The decline in the rate of mortality in the last century was followed by a decline in the rate of births in most advancing countries, as a natural outcome of an organic improvement in general well-being. The collapse of death rates in underdeveloped areas has been the consequence of advances made not in those countries but elsewhere. It is this contrast which makes the prospect of the population movement in underdeveloped areas so ominous.

In the teeth of all evidence, strenuous efforts are being made by economists in the rich countries to show that in the long run the primary producers have nothing to gain and much to lose by diversifying their economies, by accelerated planned investment in industrialization. Even if the whole of the international social unbalance, the growing discrepancy between the fate of the rich and the poor countries, were the fault of the latter (e.g. the inability to curb the rise of populations and mismanagement of investment), the increasing unbalance could not be regarded with indifference by the former. It might well increase the attraction of the Communist solution – especially if that is seen to be 'working'. The success achieved by China in mobilizing the underemployed rural masses for productive investment is ominous for the non-Soviet world, as it contrasts with an almost complete failure in this respect in the underdeveloped part of the non-Soviet world, including in particular India. Moreover, evolution in the Soviet world, and especially in Russia, is likely to favour the Soviet buying of primary products at high prices relative to manufactures. This, of course, merely intensifies the potential challenge of the Soviet system to the non-Soviet orbit.

The inequality between rich and poor countries is actually increasing. This cannot be entirely attributed to the decline in international private investment due to the wickedness of the debtor countries, their inflationary policies, and the like. Indeed the opposite may be true; the failure may have been caused by the inadequacy of investment and failure to mobilize the rural population. This, in its turn, was due to a failure to push through reforms in land tenure, in taxation, and effective direct controls. It is not that the investment programmes of the underdeveloped non-Soviet area were too ambitious: they were not ambitious enough.

Yet their increase cannot be accomplished by the traditional means of market economics. The political risk is obviously much higher in the relations between the poor and rich countries than it is within the rich countries themselves. There is no doubt, moreover, that technical progress in the highly developed areas has been so strong as to make domestic investment relatively very attractive. Thus, it is only in certain specific instances, and mostly to exploit raw-material resources either by way of plantations of by way of mines or wells, that foreign capital has flowed from the rich to the poor in any considerable quantity.

It is an open question whether the rich in this way have exploited

the poor. In one sense they have, and continue to do so. They obtain labour much more cheaply than they can at home, and they have access to favourable raw-material bases. On the other hand, without foreign capital investment, the poor countries would be even poorer; and since progressive taxation has now been introduced in most areas (this contrasts strongly with pre-war practice), the poor areas also participate in the profits earned. Thus the rich, in a sense, exploit only the opportunities they themselves created. Nevertheless, there can be little doubt that private investment is not a sufficiently broad basis on which to start a self-generating process of expansion. Inasmuch as foreign investors have exerted pressure against State enterprise, they may in the long term have harmed rather than helped the poor countries.

In the postwar years, government aid has represented a very considerable contribution. Much was accomplished; yet if the vast amounts are taken into account, the achievements are disappointing. There is hardly a poor country where self-sustaining growth can safely be said to have been started.

The reason for this is partly the immense difficulties in finding suitable administrators and entrepreneurial ability in underdeveloped areas. It is also due to the multiplicity of the agencies in charge, the lack of co-ordination, and the failure to take an overall view and to apply aid and technical assistance at the points most likely to yield the best results on the basis of comprehensive surveys. It is also partly due in certain cases to the financial myopia which dominates the International Monetary Fund, and which has caused untold harm to the democratic cause in poor areas.

Foreign aid can and should play an important tole. By putting additional resources at the disposal of the poor, the need for compulsion can be reduced; voluntary co-operation can be induced by enabling the peasant and the labourer to earn some immediate income if he participates in communal investment. But foreign aid can be only marginal; the main effort must come from the recipient country itself. This is possible only if a desire for general popular participation can successfully be evoked. Such enthusiasm is unattainable without far-reaching social and economic reform, including mass-education. Foreign help needs, therefore, to be carefully planned to promote reform, and to enable a general economic mobilization. Hitherto it has been used, if anything, to induce the deferment of reforms. This is the basic cause of our failure.

A new menace has arisen in this respect in the gold losses recently suffered by the US. Instead of regarding this as a healthy readjustment (and merely calling on other countries to refrain from turning their dollar assets into gold), the danger is great that the US will cut its aid faster than Western Europe expands its programme. Only a thorough overhaul and liberalization of the constitution and functioning of the International Monetary Fund and the Bank which provided for a mechanism to offset such gold losses could prevent a positive aggravation of the already unfortunate position of the primary-producing countries.

The Fruits of Soviet Investment

Developments in the Soviet orbit have been startling. In Russia, the Communists have succeeded brilliantly (despite the imperfection of the principles on which they base their planning) in increasing industrial productivity and production. According to Mr Alan Dulles, the chief of the American intelligence service, who would not try to exaggerate this success, gross product in Russia has been increasing at the rate of over 9 per cent. per annum, more than three times the rate (under 3 per cent.) in the US, and six times the rate (1·5 per cent.) in the UK since 1954. The Russians have not, however, succeeded in agriculture. It is not certain whether this failure or their industrial success is more immediately menacing.

Their industrial success has been due to the relentless policy of investing a large portion of the national income – more than a quarter – despite their poverty and despite the grave burden of armaments. (In Britain, with a much higher income per head, investment remains at less than a sixth.) Under Stalin, this success was due to an iron control of the population. More recently, the first fruits of that savage investment policy are beginning to appear: increases in consumption have been running at 5 to 6 per cent. per annum (far larger than in the West – in Britain, the increase in the domestic product was less than 1 per cent. per annum between 1955 and 1958) while the greater part of the yearly increase is still retained in resources for further investment.

Even more ominous, however, is the case of China. There the government has succeeded in mobilizing the large underemployed rural manpower for capital-intensive, but extremely high-yielding and mainly agricultural, investment in dams, reafforestation, silt control,

irrigation, drainage, road building, and fertilizer production. It is likely that the government has obtained as much as sixty working days per man per annum for such quasi-communal investment. The fact that the original claims which the Chinese were making for their industrial and agricultural growth were grossly exaggerated should not blind anyone to the fact that an unparalleled revolution has taken place in the Chinese productive framework and that Chinese production, and more particularly agricultural production, is increasing at a rate which far outstrips the Russian. That in its turn is a multiple of that of any non-Soviet country (with the possible exceptions of Japan and West Germany).

There is some reason to believe that the Russian policy of forcing agricultural expansion into the so-called virgin territories of Siberia will have deleterious effects on their efforts to increase productivity. In the United States and in Germany, the rate of increase of agricultural productivity appreciably outstripped the growth of even industrial productivity. In complete contrast, productivity in Russian agriculture has stagnated in the last fifty years, while industrial productivity has risen rapidly and is now approaching in absolute level that of some of the advanced Western European countries. In consequence, the cost of food in Russia, especially of high-grade food such as meat, in terms of industrial products, is a multiple of that in the West.

If Russia were to make use of her superior industrial productive capacity to obtain raw materials and food by exchanging them for industrial products, the terms of trade of the primary countries would violently shift in their favour, and these countries would have considerable benefit by trading with Russia. At the same time, Russia, far from suffering a disadvantage from such exchanges, would also benefit, as she would obtain food and raw materials on far more favourable terms than she is capable of doing at present, by concentrating her own efforts on industrial expansion. Thus Russian self-interest and the interest of the poor countries would coincide. This is an extremely menacing prospect for the industrial countries of Western Europe which depend on the import of primary products and the export of manufactures.

Here, then, is a threat of extreme gravity both to our influence in the poorer areas of the world and also to the standard of living of the highly developed countries of Europe. A deterioriation in the terms of trade by 10 per cent. in one year, for instance, would wipe out all gains from the present rate of increase in productivity in Britain.

There has been an irresistible tendency towards independence in the colonial areas of Asia and Africa; and in South America, too, there has been a decided quickening of popular discontent with traditional regimes which combine economic liberalism with military dictatorship. The prestige of having broken through poverty and stagnation virtually by their own efforts has had and will have immense propaganda value for the Russians in these areas. Against this success, the fear of compulsion will weigh less and less in favour of the West if it is not able to tackle the problem of poverty successfully. In principle, there is nothing which the Soviet system can accomplish which cannot be done with equal or greater ease (because the West still contains by far the richest areas of the world) by Western Europe and North America. It is not the techniques that are lacking but the social and economic insight. The fact that the cost of a change in automobile models is equivalent to the whole of the productive-investment programme of India for several years should at least make people wonder whether the present system of allocating the resources of the Western alliance is sufficient as things stand to cope with their international politico-economic problem.

A system which must rely for balance on consciously causing unemployment, hardship, and insecurity to a large minority of the population, and which thrives on change, obsolescence, and threat to economic survival, must engender feelings of aggression, fear, and envy. If one fears and envies one's neighbour, how can one help feeling that envy and aggression are in the breast of those peoples less successful or less privileged than ourselves?

The Meaning of Economic Freedom

Economic freedom means, in the main, privilege of unfettered decision for the few rather than basic personal rights for the many. It would not be accepted as an overriding aim of democratic governments at the cost of slowing down the expansion of income or imperilling security of livelihood. Yet, as we have seen, that is precisely what is involved.

Thus some at least of the fears of outside aggression which have been so potent an obstacle to attempts to lessen tension might well have sprung not from the objective menace of the enemy, real as it is, but the state of mind produced by our own way of life. We must take into account that material success is taken as the basis of all success.

Moreover, very strong feelings of exclusiveness and envy are engendered by the existing social mechanism of maintaining consumption levels. It seems probable that the feeling of unease and suspicion, which has been evinced far more strongly in the US than in other countries more immediately menaced by the ruthlessness of the Communists, has to a considerable extent been related to the internal problems of the Americans, rather than to the objective problem caused by Russian or Chinese expansion. This in its turn must increase Russian and Chinese suspicions. Thus a never-ending vicious circle ensues.

This is not to deny that the Russians are themselves aggressive and ruthless, or that Communism is totalitarian and intolerant. It does mean, however, that our own way of life encourages that rigidity of attitude which has been a potent cause of the failure even to agree in making acceptable offers on which to negotiate.

The important thing for our own peace of mind is not that the Russians should accept these offers but that the offers should be made. At the same time, it is equally essential to reverse the present drive towards organized competitiveness between giant organizations and move towards a more deliberate, more conscious, more rational way of deciding about social priorities and about distributing national income. It would seem, for instance, foolish to abandon the concept of public ownership just when it seems to have proved itself a formidable engine of expansion and might prove itself an equally potent means of ensuring a purposeful allocation of resources and of permitting an increase in collective consumption. There can be no question but that the importance of nationalized industry – though not necessarily on the existing model – in the world economy will rapidly increase in the next ten years.

What is to be done? The diagnosis of the long-term economic outlook for the West suggests a number of ways in which improvement might be striven for.

Firstly, the allocation and growth of the national income ought to be influenced more consciously than at present. This means wages policy, tax reform, and control over investment. The present system leads to instability, unemployment, and a decline in the relative growth of the non-Communist world. It also overstimulates expenditure on conspicuous consumption in contrast to collective well-being and an increase in investment (which is sorely needed in Britain and in the poorer areas). It must lead to a polarization of sentiment and to tension within, and between, countries. All non-Communist areas

need a vast increase in investment in human beings, both in health and education and in housing and urban planning to buttress their spiritual well-being. They must find a balanced way of deciding between increases in leisure and incomes.

Then, it would seem essential, in view of the relentless increase in Soviet economic efficiency, to accelerate growth even in the most developed countries of Western Europe. The threat of Soviet competition in primary-producing areas is steadily growing and could only be met, without detrimental consequences for the increase in the standard of living, by accelerating investment and growth. This is impossible so long as the non-Soviet orbit relies for stability solely on monetary policy, i.e. on the deliberate creation of uncertainty and fear. In particular, speedy measures must be taken to prevent gold losses by important countries and the shortage of international liquidity which leads to a cut in total aid to the poor areas. A transformation of the IMF into an International Central Bank with powers to create reserves, and a reform of its present policies and attitudes, are essential to this end.

Thirdly, the needs of international, as contrasted with national, development have also been largely misunderstood. Allocations of foreign aid and technical assistance have been made on a piecemeal, project-wise basis from year to year, thus reducing the effectiveness of even those insufficient amounts that have been voted. Foreign aid must be used to stimulate national effort and reform, and to reduce the need for compulsion in mobilizing the rural manpower of the poor areas for accelerated growth.

In the fourth place, it has been suggested that the cost of such a restoration of internal and international social balance might be more easily borne if financed by increasing indirect, rather than direct, taxation. I doubt this. I feel that indirect taxes, if applied on a sufficiently large scale, can, in a democracy, be made as obnoxious by skilled propaganda as direct ones. A further alternative could be the extension of public ownership. This has also been attacked successfully by the propaganda of those who fear to lose their privileges. So-called libertarian 'cajolery' bids fair to doom the West to immobility and failure. Under the attractive guise of defending basic liberties, it wishes to preserve the *status quo* and to induce further decreases in the allocation for collective needs. At the same time, it encourages consumption in the affluent countries instead of measures to moderate international inequality.

Lastly, beyond all this is the relentless increase in population which again overshadows the greater part of the world, and threatens to negate all efforts to increase *per capita* national incomes. Here we are confronted with a problem which causes a grave split in the opinion of the Free World, since an important fraction regards it as a religious issue on which compromise is not possible. It is desirable to find a voluntary solution. There can be no doubt, however, that some solution will have to be found in the less developed areas, for otherwise all their efforts will be doomed to failure.

Keynes is not Enough

Even so cursory an enumeration of some of the ways in which relief might be sought from the present trend towards increasing internal and international tension is sufficient to show the immensity of the psychological problems involved. The main stream of public opinion in the West, far from promoting the creation of the preconditions needed for an outcome favourable to democracy, is marshalled in a diametrically opposite direction by advertising campaigns. There has been insistent propaganda in favour of restoring the sway of the uncontrolled working of the price mechanism in 'free' markets acting through the profit motive and of forswearing Keynesian methods of stabilization. Yet it is clear that even such Keynesian methods cannot achieve the acceleration of growth and decrease in international inequality which are needed.

The victory of economic liberalism, which has strengthened the dominance of giant private interests, has been followed by a distinct increase in instability and a decline in the rate of growth. It has also been followed by a return of the old pre-war difficulties of the poorer primary-producing areas of the world. Altogether, there is an uncomfortable resemblance between the period after 1951 and the period of reconstruction after 1922, which ended in the crisis of 1929 and created the factors which led to Hitler's war. Of course, the situation has changed since the 'twenties in each of the great industrial countries of the non-Soviet world. and it is unlikely that even an extreme anti-interventionist government would commit the mistakes which caused the Great Depression after 1931.

On the other hand, the resilience of the economic system might be eventually sapped by the sheer satiety of consumers, and the increasing capacity of producers to pour on to the market expanding

quantities of goods of declining importance to people. But escape towards increased leisure and well-being is blocked because leisure, in order to be enjoyable and constructive, demands a far greater degree of collective consumption and investment than people under the influence of persistent propaganda seem ready to approve at the moment.

A fundamental difference, however, between the present situation and the 1920's, is the existence of the China-Soviet bloc with its increasing capacity to produce goods. It is this challenge which must, in the end, enforce modifications in our present policies and social arrangements if we do not wish to lose the struggle for peaceful co-existence between the totalitarian, planned, and deliberately expansionist economies of Russia and China, and the free economies of the West. Economic action cannot by itself do much. It can, however, provide an opportunity for other, more important, educational and psychological changes to take their beneficial course.

CHAPTER ELEVEN

The Impact of Aid (1961)

SUGGESTIONS FOR AN ENQUIRY

The substantial increase in aid which is foreshadowed by Mr Kennedy's message on Food for Aid and his programme for Latin American reconstruction suggests an urgent need for reconsidering the impact which aid has (a) on the recipient country's political situation; (b) on the character and methods of its economic planning and outlook; (c) on its relationship with the aid-giving country.

This timeliness is increased by suggestions in some of the aid-giving countries that the relative ineffectualness of the aid hitherto given should lead to a thorough reconsideration of the aid-giving process and, more especially, that aid should be made in some senses conditional on the recipient country agreeing to collaborate with the aid-giving country in elaborating a programme into a set plan for economic development. This plan is then to be put into effect by a commission consisting of nationals not merely of the aid-receiving but also of the aid-giving country. The foreign planners would thus no longer be in the position of advisers working with and through the government of the country concerned, but would have executive powers. Before any such suggestions are put into effect an enquiry shedding light on their probable impact in the recipient country and their relations to the contributing countries seems timely.

THE BACKGROUND

An enquiry on the psychological impact of foreign aid in a given country must necessarily start with a historical analysis of the relations of that country to the outside world. It is this historical background which will shape the predispositions of Government and

public opinion to renewed foreign influence which foreign aid inevitably brings in its train. In this respect we must distinguish between countries according to their historical experience. There will be those who experienced actual political domination and those where the impact of the metropolitan dominating country was merely economic. No doubt very often dominance in a political sense brought about penetration in an economic sense. It is obvious that foreign administrators of a certain nationality would rely on suppliers whom they knew and trusted, who would be their own nationals, even if (as in the case of the British African colonies) there were no protective tariffs to shut out the foreigner in order to reserve the right of trade to the metropolitan area. *But there is a definite and important distinction between political and economic penetration or dominance*: and the after-effects in terms of suspicion or hostility are very different. As we shall argue below the impact of the historical background is not at all simple. And actual colonialist dominance does not necessarily result in a worse psychological atmosphere than economic penetration.

We must therefore first of all distinguish between the impact of current Government and other non-profit activities in providing resources and technical knowledge and those of the great private corporations of Metropolitan areas in analysing the probable reaction in recipient countries. Attempts have been made (especially in the US) to distinguish between Government and private aid, including in the latter universities and other non-profit bodies such as Foundations. The ideological bias in this classification is blatant and seems unacceptable in recipient countries. The sharp distinction which must be drawn is between profit- and non-profit-motivated activity. The importance of this distinction will become clear.

Even so far as the historical process of economic penetration unaccompanied by political dominance is concerned, we should have to consider two rather different types. The first one we could call *general penetration*. The second is represented by the establishment in an underdeveloped area of some *specific enclave of foreign activity* for the exploitation of some specific natural resource which the country may have had.

In both cases this economic penetration (including of course a financial one) might be backed, even if no colonial dependence is established, by some form of *specific legal privileges and exemptions* from local jurisdiction or legislation including tax legislation. This

backing of economic penetration by political force might be openly expressed in such instruments as the capitulations in the Osman Empire, including Egypt, or in China and in parts of the Arab Peninsula. In these countries consular courts were accepted having a concurrent sovereignty over foreign civilians; this might be latent, based ultimately on either economic sanctions or military force itself. The military force might again either be overt or consist of a clandestine capacity to organize revolutions against any Government which did not obey and respect the interests of the foreign companies or of the government.

This preliminary survey already shows that the pyschological attitude which is likely to be encountered in the present by governments in giving foreign aid will differ significantly from country to country depending on the historical experience of the country concerned. It should be noted that it is by no means self-evident that the difficulty of a colonialist Metropolitan Government in the erstwhile colony will necessarily be worse than that of a government which has had no political domination of a country in which its vested interests had penetrated.

Nor is this so unjust as it sounds. Overt colonial rule by a domestically democratic country (however autocratic its regime was in the Colonial Territory) would still come under scrutiny in Parliament or Congressional investigating Committees. The fear of open scandal might well set much closer limits to the activities of Metropolitan vested interest in colonies than in economically and indirectly dominated areas. Indian sentiment to Britain for instance contrasts favourably in this respect to that held towards the US in Latin America.

Nor is it at all self-evident that the inhabitants of a given country will be favourably inclined to foreign governments or companies because it could be shown by a complicated economic analysis that without the penetration of the Metropolitan governments or private corporations, the country would have in all probability been even worse off than in actual fact it was as a result of the penetration. Indeed the opposite is perhaps more likely, because the memory of the situation before the penetration will have faded, and the contrast between the high efficiency and considerably higher salaries paid by the foreign interest to a privileged few will contrast rather poorly with the average income of the country as a whole, and people will not be conscious that income would be even less if the penetration had

not taken place, because a basis for such comparisons would not exist.

One more problem must be raised. This is the difference between what I call *purposive* and what may be termed *automatic* or built-in *exploitation*. The purposive exploitation of a territory by its metropolitan area was the basis of all colonialism before the nineteenth century. The Townshend system, the protectionism of Colbert in France, and the Spanish and Portuguese exclusiveness in the spice and bullion trade are typical examples. The colonial power reaped a monopoly profit between selling and buying and, in some cases, Metropolitan companies had a monopoly of providing manufacturing goods. In some cases tribute payments were levied either by way of direct taxes on the inhabitants; for instance as in the case of America and also in the Spanish possessions, or by way of indirect exploitation as in the case of the first rapacious period of the East India Company. In the latter case, illegally protected private rapacity was added to the general exploitation of the country by way of levying taxes. This phase of exploitation by England ended by the middle of the last century. In other countries it lasted much longer. Some lingering remains still exist. Colonial governments granted monopoly privileges to certain private interests, e.g. wireless and communications or electricity companies, etc. before self-government was introduced. (Land grants in such countries as Kenya, Morocco and Algeria to white settlers are also remains of this phase of colonialism.) But by and large this phase of colonialism can now be regarded as almost totally extinct as an active policy.

In the main, the automatic exploitation, which has come much more to the fore, represents an unequal sharing of gains arising out of economic activity in the poor or underdeveloped territory. This inequality of sharing the gains of economic activity is the transmutation into an international and often inter-racial struggle of the normal social or class tension within a country. The problem is, of course, much more acute in the case when two unequal partners meet on the territory of the weaker one because the countervailing forces which have been liberated by the rise of political democracy and of trade unions in highly developed areas do not exist in the poor territories. Thus the 'free' operation of market mechanism prices in an area in which there is, in practice, an unlimited supply of labour, results in most of the gains of the activity being appropriated by the stronger partner providing the capital. In principle, this was the case before

the war everywhere when royalty payments were of minor importance and represented no more than a fraction of the total gain. But the pressure of competition between poor countries trying to attract capital has kept royalties and taxation payments on a relatively low level especially in the case of manufactures, in order to help in the industrialization of the primitive area. In certain cases (e.g. Argentinian oil) this may result in such favourable results for the foreign capitalist as positively to burden the balance of payments.

A slightly different problem arises from what might be termed the unequal price structure between primary produce and manufactures, a problem which has come to the fore especially since the war. This is the result of the fact that a large number of primary commodities are produced by small and weak cultivators, and have organized world markets. Thus speculative activity had disproportionate effects. This has been so even in the case of some commodities which are produced by large oligopolistic companies. Indeed, even where there has been government intervention in the form of export quotas, e.g. sugar and wheat, or where an oligopolistic restriction policy is pursued, e.g. in copper, lead and zinc and to some extent, rubber, every marked price instability has been experienced even in the period since the war, characterized by relatively high average employment. The price instability has been especially embarrassing in times of general deflationary pressure, which found most of those prices very vulnerable. In contrast, the prices of manufactures which these countries have to import have steadily risen as a result of the prevalence of a cost/push inflation in manufacturing countries. The inevitable consequence was a heavy pressure on the terms of trade of the poor areas which was augmented by

(a) the fact that demand for primary products rises less than national income in fully developed rich areas while the demand for manufactures rises faster than national income in the poor countries;
(b) the disproportionately fast increase in productivity in producing food and other primary products in the rich areas; and
(c) the evolution of substitute products which displaced the primary goods.

In consequence, and apart from the war and immediate post-war period, the terms of trade of the poor areas have deteriorated and are now some 30 per cent. worse than in 1913 or in 1950.

Inasmuch as the development of colonial or economically dominated

areas has been such as to favour artificially the production of primary produce, this development objectively means an impoverishment of that area which is none the less resented because it is economic and not political in its origin. This complex phenomenon of clandestine and automatic exploitation, in fact, shows up in the growing inequality of economic status and therefore, in the end, of human dignity, of foreigners and the average inhabitant in underdeveloped areas.

The fact that the end of colonial domination has left large tracts of Asia, Africa, Latin America broken into non-viable units with completely artificial boundaries again increases the difficulty of establishing a great equality. Only some sort of Common Market would allow the establishment of industries of a sufficiently large scale to be internationally competitive. This has been prevented by the erstwhile empires whose design of ruling by division resulted in this fractioning and balkanization of continents. The insistence of fully developed countries on the most-favoured-nation clause, which prevents remedy by the establishment of partial Common Markets, is a potent source of dissatisfaction.

THE IMPACT OF AID

I have analysed the background questions which will determine the psychological setting in which the aid-giving process takes place. I shall now turn to the problems which arise as a result of the aid-giving process itself. It is, of course, difficult to differentiate in any given case between these two factors because the aid-giving process is likely to revive or be strongly associated with the previous experiences in the receiving countries. The fact that in a great number of cases the need for aid, and more especially the need for technical assistance, arises because of the real or imaginary failures of the contributing government, or its private corporations, or a mixture of the two, in a previous phase of the history of their relations to one another, complicates the matter. It is also obvious that there is an objective ground for suspicion on the part of the receiving country that the contributing country and its nationals have a feeling of superiority, even if it is not openly expressed. In any case the need to obtain assistance in knowledge arises out of a failure of the recipient—in not being able to produce experts in the various fields which are

required for an acceleration of growth. This alone might create a feeling of resentment.

In a number of cases the lack of preparation of experts for the difference in social and cultural environment within which the government system and private enterprise must function in the receiving countries might itself have given the impression of a calculated bias in the policy of the government which is hostile to the prosperity of the recipient country even when there is no policy behind it at all.[1] It is obvious, for instance, that experts who have been nurtured in the North Atlantic Protestant atmosphere will, without thorough retraining, have certain notions about human motivations which are wholly inapplicable in most other parts of the world. As this misreading of economic motivations and psychological possibilities would inevitably result in the advocacy of measures whose success would depend on private initiative and the existence of entrepreneurial ability and willingness, they would give this impression of bias.

The psychological relationship in the field is in any case bound to be difficult. Even if there is no conscious government policy trying to influence the recipient countries' domestic political struggles or foreign policy orientations, the executing experts can hardly fail to express the ideology of the contributing country. In the past decade this risk was very much enhanced by the relentless ideological struggle between the two main contributors to international foreign aid and the consequent intolerance of suspected deviations from strict ideological orthodoxy on the part of the executants of those governments unless positively instructed. This meant that many good technicians and civil servants were afraid to recommend policies which ran counter to the orthodoxy of the day, even though they must have perceived its futility.

For the same reason the planning techniques and administrative customs as well as, and due to, a different social environment in which the aid programme has got to work, might under certain conditions arouse hostility. Cases have occurred in which the foreign technical experts and the controllers of foreign aid programmes insisted upon routines which were completely alien to and must arouse the suspicion of the recipient governments and countries. Moreover, the very fact that they were put forward has in certain cases led to friction and could easily be misrepresented as an attempt

[1] This is an additional and subconscious factor beyond the conscious fear of experts to appear unorthodox at home, which will be discussed below.

to impose ways of living alien to the country concerned and inimical to its national interests.

Only the most thorough and well-prepared indoctrination of experts handling contributions, or helping the receiving government in working out and administering development programmes, can possibly avoid real grievances. This has not been altogether successfully performed in the past, and I am sure a close revaluation of the methods of choosing and preparing the personnel of the contributing countries for this task is essential, if for no other reason than to avoid giving wrong, i.e. sociologically irrelevant, advice – quite apart from the danger of giving offence.

It is obvious that those who profess the need for radical changes of social and governmental institutions in order to achieve a decisive acceleration of economic development have a very considerable advantage over those who wish to preserve the basis of the existing order while modifying those aspects which result in social inequality and economic stagnation.

Nor can there be any doubt that the resources necessary to achieve a given progress are much larger in the latter than in the former case, at any rate after an interim period of political and social struggle and uncertainty associated with violent revolutions.

There are two conjoined reasons for this disproportionate need for resources to achieve the same aim. In the first place, the absence of violence and revolution will mean that at any rate part of the inequality in income distribution which is prevalent in these countries will have to be maintained although it does not serve any incentive purpose. The second is that the combination of the maintenance of the high and possibly conspicuous consumption standards of the upper classes and the principle of refraining from violent compulsion will make it imperative to give material incentives for the various poor producing classes to adopt new ways.

These incentives might have to be rather large if the force of tradition is very strong. In particular, rural reorganization might take a great deal of additional material resources. Yet if these material resources are not furnished, while a strong bias is exerted against revolutionary reorganization of the institutional framework of underdeveloped economies, a feeling of frustration might ensue which is bound to exacerbate feeling against the aid-giver.

It would be interesting to investigate whether some of the failure of the aid to induce a better relationship between the contributing

and the recipient countries has not been due to the fact that the feeling became prevalent in the latter that the contributing country by insisting on promoting the maintenance of the *status quo* has actually exerted a net negative influence on the development of the country concerned. (This especially applies in Latin America, but it is also prevalent in some Asian countries.)

Disappointment with the failure of increasing international bilateral and multilateral aid might lead to despondency and thus to relaxation of effort on the part of the contributing rich countries. This would be almost as dangerous as impatience with existing national and international organs responsible for the utilization of aid. It is of the utmost importance to recognize, both on the recipient and on the contributing side, that the mere provision of aid in terms of resources or in terms of technical knowledge is not sufficient by itself to start a cumulative process of economic growth. Social conditions must be created which are favourable to development.

The ideological bias in the contributing country's policy affecting aid has been twofold. In some cases, either explicitly or implicitly, it was made clear that aid would only be given to private enterprise, or to governments only if they respected private enterprise and gave it sufficient scope. This happened in some cases in which private enterprise could not or would not meet the objective needs of development, e.g. because it thought that the risk was excessive, or on account of lack of resources. Another line of ideological influence was the insistence on abolishing direct controls or severely limiting their scope, despite the fact that the price mechanism might not under those conditions work in the way in which it is supposed to bring about optimal factor allocation.[2]

The irritation caused by the inappropriateness of such conditions attached to aid would not have been less if they were not connected with the material interests of the aid-giving country. The fact that it might have condemned the recipient to stagnation despite all aid, and thus might have increased the dependence of the recipient on aid, would induce a feeling of national frustration and irritation.

In other cases, however, the ideological bias in the policy of aid-giving countries towards *laisser-faire* was obviously to some extent 'rational' in the limited sense that it promoted vested interests. These

[2] Cf. my essay on the 'Economic Policy and the Price Mechanism' in *Economic Bulletin for Latin America*, March 1961, reprinted in this volume, Section One, Chapter One.

might have been direct, inasmuch as the contributing country's nationals might have had concessions in the area or might strive for new ones. In this case the frustration of general development might serve these vested interests, for it would promote conditions in which primary production might be more profitable because of the greater availability of labour at low wage levels.

But the rationality of this bias would also be obvious if it was merely to protect or promote markets for the export industries of the aid-giving country. Planning would have displaced previous exports of consumer goods and this might not have been offset by an increase in the exports of producer goods. Should such a bias, rational or irrational, be suspected, the contributing country's influence through its diplomatic agents and experts would obviously come under very close scrutiny.

One particular problem, which has become especially important in the Middle and Far East as well as in Latin America, has been the use of aid programmed in a sort of negative intervention in the countries concerned. Under the guise of 'preserving indigenous institutions' in the recipient countries, and not 'interfering in domestic affairs', contributions were made dependent, at least implicitly, or were thought in the recipient countries to be dependent, on the preservation of *existing* institutions. In a great many instances these institutions were really incompatible with an orderly evolutionary development of the country.[3] Formally, the intervention took place under the guise of non-intervention, of being natural. In fact, the contribution was used, or was thought to be used, in aid of existing vested interests. Thus, and this is especially noticeable in South America, the fiction grew up that the aid was purposely channelled in favour of the *status quo*, which from a political point of view was incompatible with the professed principles of the aid-contributing country. In some cases such intervention took place on the basis of assuring the safety of foreign investors in order to help the flow of capital investment towards the country, which capital import was deemed to be necessary for its orderly development.[4]

It would not be altogether unfair to say that this attitude has to some extent been responsible for the failure of aid and foreign investment to contribute in a commensurate manner to the acceleration of

[3] And were hotly opposed by people who alone in those countries wanted to achieve development.

[4] Even in India at an earlier stage the International Bank pressed for greater scope for private enterprise.

growth in recipient countries. It is also, in my opinion, one of the reasons why the magnitude of the aid available to individual countries had very little to do with the ideological or political success of the aid or with its material results.

The fact that in most contributing countries public finances are organized on an annual basis has increased the *psychological* difficulties and made for greater ineffectualness both from the *objective* economic and technical viewpoint and also *politically*.

It had an unfortunate psychological effect because the conditional character of the loan was underlined. In the political struggle in the contributing countries, moreover, the debate about aid assumed forms which were necessarily slighting to the self-respect or dignity of the recipient country, quite apart from suggesting that the political and economic-administrative compliance of the receiving country would be a condition of the continuation of the aid. Here then is a potent psychological reason for accusations that the dependent position of the receiving countries is to be re-instituted or perpetuated.

Objectively the annual exercise of voting and appropriating moneys in the contributing countries introduced a measure of uncertainty in the planning of the recipient countries which was often fatal to the efficiency of the aid programme, because the risk of discontinuation had to be taken into account and thus large-scale economic plans were ruled out in favour of short-term stopgap projects. The tendency of both the International Bank and of contributing countries to tie grants to certain specific projects further rigidified and limited the effectiveness of planning. It has given rise, even in countries where the planning procedure is well worked out and which possess effective administrative and planning staffs, to a great waste of resources, as capacities were built up when existing ones could not be fully employed on account of shortages of raw materials for which credits could not be obtained.

A somewhat similar factor on a slightly different plane is presented by the method of determining aid. Is its volume fixed on the basis of some objective test? Is the allocation of the programme to receiving countries, and the nature of the programmes which are to be fostered by the contributing countries, determined unilaterally or by consultation and mutual agreement? The sole instance in which some objective test was in fact being used to determine the magnitude of the aid, and in which negotiations took place as between equals, is Marshall Aid. Even there there were complaints in the smaller and less

developed countries, whose civil service was not altogether up to the new task, of interference both in scaling down their programme and determining its character, i.e. in choosing the individual projects to be included.

It seems essential, therefore, if aid is to succeed objectively in improving conditions in the recipient country, and if it is to be successful from the point of view of the contributing country in the sense of improving relations between it and the recipient, that a thorough enquiry should be made to discover how those parts of the population which would be willing and capable of elaborating and carrying through aid programmes could be encouraged, without the contributing country giving the impression of trying to dictate the work and planning, or even its execution, either of which would prejudice the success of any plan, however well conceived from a technical and economic viewpoint.

This means, therefore, that the pace cannot be forced from the outside. What can be done is an educative programme which makes it clear what policies in the recipient country might encourage a quickening of aid by the contributing countries beyond government grants and loans.

While the posing of conditions for aid might well prejudice the success of the endeavour of the contributing country to secure full confidence of the public opinion in the recipient country, a well-managed educative campaign will be less exposed to this risk. On the other hand, support must not be given to groups or institutional arrangements likely to prejudice economic or social progress in the recipient country. This might seem obvious. It will not in practice always be easy to carry it out. The historical involvement (e.g. the United States in Latin America or Britain in the Middle East) of aid-giving countries has created a strong sense of loyalty on both sides and these loyalties do involve exactly those vested interests which have to some extent been responsible for the failure of faster development in prospective recipient countries and have created the need for aid.

On the other hand, it will often be found that the contributing country – especially if it operates through multilateral agencies – will be able more freely to discuss and explain the needs of the situation in terms of economic policy and institutional reforms than would be possible for hard-pressed political leaders in newly emerging (and even in old-established) countries. Provided, therefore, that the confidence of public opinion has been won that such advice has no

ulterior motive, explanations by foreign governments and their representatives might well play a most important role in ensuring a greater efficiency in planning than would be possible without their intervention and without arousing hostility. It must be said that such intervention is likely to be more acceptable if it emanates from *multilateral* rather than *bilateral* sources (though the history of the United Nations in the Congo shows that even multilateral agencies are capable of arousing hostility if passing beyond the passive role of offering advice on points on which they were asked for it by the recipient government). But there is no doubt that a passive role will not create the conditions of success. *A positive attitude in planning is required* from the contributing agencies.

This will not be easy. One of the important failings of aid has been the multiplicity of agencies concerned, and their competitiveness. It is essential, therefore, to investigate how far the advice has suffered in objective value from the desire to avoid awkwardness which would throw 'aid business' towards other agencies and thus would lead to a loss of control over aid by any particular agency. This is especially important in the case of multilateral agencies, but cases can be shown where it has affected the policy and advice of bilateral agencies. In the long run the frustration of advice would again give rise to unfavourable reactions by the recipient to the aid-contributing country or agency.

One of the most urgent tasks is therefore to enquire what sort of co-ordination might be built up at field level. It might be necessary to try to obtain the services of high-level economic diplomatists to represent the UN family of agencies at country and regional level, who could organize the planning of aid programmes and, through persuasion, could get bilateral support for such co-ordinated plans.[5] As it is, the administrative procedures of individual (both multilateral and bilateral) agencies favour the individual project which is manageable, while a 'global' approach seems theoretical and unmanageable. Procedure, moreover, often favours haphazard choice. The consequence is the lack of logic and effectiveness in many aid programmes. Paradoxically such failures redound to the discredit of the agency psychologically in the recipient country–even though its fault was one of complaisance rather than commission.

[5] The nearest thing to such co-ordinated plans are the International Bank Reports and the FAO Mediterranean Report (to be followed shortly by a Preliminary Report on Africa).

The execution of any plan can be fully effective only with the participation, indeed enthusiasm, not merely of the policy makers in the governmental executive organs but also of those broad masses which it affects personally. This is partly a task of education, but the process of education can be aided and speeded up if proper incentives are given. I have already pointed to the need for much greater economic resources if a break with the past is to be carried out without violence or a degree of compulsion which would be regarded as intolerable in democratic countries. One of the most important tasks of foreign aid might be that with its help large sections of the people might be given immediate benefit for their willingness to adopt new ways of living and new methods of production which are indispensable for the quickening of economic progress. It can also provide the means by which the immediate social cost of broadening education, including the loss of the children's earnings bitterly needed by parents, can be borne. All such changes are difficult to achieve because of the weight of tradition, apart from the objective resistance of vested interests which will be hurt. The provision of immediate and substantial incentives on the one hand, and adequate compensation on the other, might be a way by which the obstacles in their progress can be eliminated.

It should be one of the most important endeavours of the enquiry to ascertain whether and under what conditions a handling of aid under multilateral auspices is preferable (even from the point of view of the political objectives of the controlling country) to bilateral negotiations. I feel that the provision of

i. co-ordinated planning and execution,
ii. well-trained personnel, especially in the high echelons at country level (e.g. country representatives).

is an essential condition of success. I doubt whether a handing over of the job to multilateral agencies as they are now organized would do much good. And at the moment it is unlikely that they would be so entrusted, because without proof of obvious superiority the diminution of the influence will not be tolerated by the contributing countries which they might think to gain through having direct-aid representatives in the recipient country.[6] Thus the first task is to enquire whether from the viewpoint of recipient countries a reform

[6] A clear indication of this is the rise of 'consortia' to handle large-scale aid (e.g. the case of India).

of the multilateral agencies and co-ordinating machinery is not a precondition of success. Such reforms might induce contributing countries to use multilateral channels, and this in turn might facilitate the creation of a positive atmosphere in recipient countries.

The elaboration of comprehensive development plans demands, therefore, primarily political leadership of the highest order combined with a clear yet realistic vision of the future. All that can be done by investigations such as are proposed is to establish in concrete terms the direction in which that leadership must be focused in order to achieve the maximum result at the least cost.

POSTSCRIPT TO SECTION FOUR

Failure through Aid

The increase in economic inequality between races and in international tensions, analysed in Chapter Ten, has, if anything, accelerated. The population explosion and the short-comings of international aid, both on the contributing and on the receiving end, have wrought havoc with the efforts of idealists.[7] Greater equality indeed might, in the immediate future, come more from the slowing down of progress in the 'richer' countries, including Soviet Russia, than from acceleration in the poorer ones. The analysis of world tension presented in Chapter Ten has been in one respect vitiated by the agricultural failure in Russia. The effect of this failure was aggravated by the continued refusal of the Communist leadership to accept the fact that climatically that country is deeply handicapped in providing high-value food for its growing population and would have to rely on industrial exports to obtain them from abroad. But the renewed advance in China after the dismal failure of the 'Great Leap' carries

[7] The idealists, as so often alas, contributed to the havoc by promising the unfulfillable – mainly because the intellectual analysis underlying their actions was defective. Goody-wooleys are almost as great a menace as the ex-imperialsurrealists.

an even graver warning in the face of growing socio-economic difficulties in the non-Communist countries of the underdeveloped world – unless that challenge results in an atomic holocaust before China can retaliate (and Russia remains neutral).

The more detailed analysis in Chapter Eight of one of the basic causes of the failure to promote equality shows that the unequal partnership in trade, however grave its consequences were, can hardly be assigned the sole or even the main blame. Even when the terms of trade were favourable to primary producers after the war little relative advantage was gained. Stabilization of price-relationships in preference to aid – an ambition shared by the 'third world' with France – will not necessarily bring about quicker or socially more satisfactory or satisfying development. The same contribution by the rich to policies and institutional reforms based on a well-thought-out plan for regional economic development is far more likely to achieve this aim of higher and better distributed material standards of life. Nor would a so-called compensatory finance scheme (the maintenance of the foreign income through compensating loans or grants) more recently advocated by some, serve as a substitute for a continued, and preferably continuously improving, international redistribution of world income. If such finance was paid directly to the producers it would not necessarily accelerate or even maintain investment. And if it were channelled through Governments it would represent a periodic fluctuation in receipts of resources for development, unsettling to sound planning. It might well turn out that these would be paradoxically higher in times of depression than of prosperity in the richer countries. As prices improved aid would fall. And, obviously, the whole improvement in price would not be at the disposal of the Government of the recipient country. Thus, paradoxically, investment (though not national income) might be smaller in favourable, than in adverse periods.

Trade, and especially its conscious manipulation, is no substitute for aid. The exclusion of the products of developing countries' light industries and the heavy taxation of certain tropical products, such as coffee and cocoa, is unquestionably one of the most grievous issues exacerbating relations between the rich and the poor nations. It must also be said that even though the relationship of primary to manufactured product[8] prices at a certain date, especially during the

[8] Cf. Chapter Eight above. There is little doubt that the losses through the worsening of the terms of trade over the last decade or so exceed the gains due

Korean boom, can hardly be taken as 'normal' or desirable, the sociological mechanism underlying its persistent worsening is politically intolerable. But in my opinion an international redistribution of income based on need and absorptive capacity on the one hand, and wealth on the other, is fairer both from the viewpoint of contributing and recipient countries. A stabilization of primary prices at an earlier and 'juster 'relation with those of manufactures would penalize the more liberal importers among the 'rich' and probably benefit the less needy.

An international income tax would obviously be the ultimate aim. This is politically impracticable as yet. But contributions distributed on a progressive basis might already be within the limits of practicability. They might be based on a determined percentage of the per capita income above a certain minimum level rather than proportionate to national income, e.g. 2 per cent. of the national income exceeding, say, $500 per head, rather than 1 per cent. of the national income.

Once a primitive agricultural country is set on a course of self-sustaining expansion its lessened dependence on the industrialized countries would itself reduce the vulnerability of its exports and lessen its need for imports. It would also redress the imbalance in the mechanism of price-formation. The best hopes for the future lie in regionally organized aid programmes creating sufficiently large and varied economic units to be able to sustain large-scale industry. The encouragement of agricultural produce in exchange for advantages in industrial imports (such as the US pre-Castro Cuban arrangement and much of the relationship between ex-EEC-Colonial Africa and the EEC)[9] is not in the long-run interest of the weaker partner. Without an attack on the sociological mechanism, which is the root cause of the inability of the primitive agricultural countries to secure for themselves the fruits of an improvement in their productivity, little progress can be achieved. One way or another – especially by substitution – their earning power will be undermined.

On the other hand, the avoidance of sharp fluctuations in the economic activity of the industrial world is of essential importance

to the increase in aid. The contrary impression given by the UN in its World Economic Survey 1963, Part I, is based on erroneous concepts and statistics. But, then, as I argue in the text, aid represents a more potent instrument of development.

[9] This theoretically provides for the unilateral protection of industrial development in the African territories. In practice little impetus has been given to a more unified and better balanced African development, including, of course, industrial development.

to the poorer areas. Thus international monetary reform is an essential part of any hopeful strategies to fight international inequality. In this context I cannot discuss the problem at length.[10]

[10] Cf. *Unequal Partners*, Vol. II, Section 7. The coupling of international monetary reform with the stabilization of a 'basket' or batch of primary products put forward by Dr Kaldor, Professors Tinbergen and Hart is an ingenious attempt to solve a number of difficult problems by a single 'automatic' device. But the automatism of the scheme is hardly an advantage from the viewpoint of the persistent 'surplus' nations. The authors' hope, that this loss of sovereignty is more supportable, because it is not the result of giving powers of credit creation to an international body but of making it 'automatic', is not well founded. Gold as a commodity became universal and displaced even silver from its bi-metallic role because its supply was (relatively) stable. It is precisely because there was a slight deflationary bias in the gold standard in most periods that creditor countries accepted it without murmur. It is a deep-seated sociological misapprehension to assume that it was a 'blemish' of the gold standard in the eyes of the surplus countries that the production of gold was insufficient and that thus the world economy could not be stabilized by the increase in production when prices fell (and the reverse when prices rose). It was *because* the stimulation was insufficient that the gold standard survived.

The scheme is, the authors would say, obviously *not* intended to *stabilize* the *price of any one commodity* but that of a batch of commodities. I fear, however, that the fears of the central bankers in this case may have some basis. There is in the scheme a ratchet mechanism which will increase production of primary commodities and might undermine stability. We are living in a state of immense biological and technical revolution in primary production. It is this revolution which, together with the sociological conditions in primary production in most poor countries, has created the problem of the continuous deterioration in the prices of primary commodities relative to manufactures. No doubt the proposed scheme does not intend to stabilize any single price. Yet, as the production of any one commodity increases because of increases in productivity, it would pay the Government most interested in the commodity whose production has cheapened, to buy the other commodities in order to stabilize the price of the particular commodity in question and procure foreign exchange by tendering 'batches'. Thus the price of the other commodities in the batch would increase and their production would be stimulated. On the other hand, the forces which, prior to the introduction of the scheme, have been responsible for the worsening of the price of the commodity whose cost of production has fallen, would maintain increased production despite the worsening of the price of that commodity in relation to other commodities and to gold.

A very large number of the commodities in question have substitutes of a synthetic character and others can be developed given sufficient stimulus. The stabilization scheme for the 'natural' products would obviously stimulate production of existing and potential substitutes. While the price of those 'natural' products which are being displaced by the synthetics would fall, here again it is doubtful whether this fall would have the desired effect.

There is a further and obverse aspect of this potential increased absorption of reserves through their monetization. This is the decline in the volume of non-monetized stocks which have to be carried by the producers. Inasmuch as the existence of such stocks was a potent influence in increasing aid, the commodity currency scheme might well reduce foreign aid.

Suffice it to say that so long as the problem of cost activating income inflation is not tackled in the affluent countries, there will be danger of a competitive monetary deflation (and its obverse, induced balance of payments crises) and there will also be danger of primary prices coming under severe pressure.

Conversely the application of the experience of highly industrialized countries to less developed countries in this respect might have fatal effects. For instance, the encouragement of trade union activity in new circumstances were a double hindrance to development. It reduced tax revenue and increased costs against potential expansion of new industries. Insistence on minimum wages and labour charters may have been idealistic and justified in countries where unemployment disguised as 'self-employment' or feudal servitude had disappeared. In the poor countries it promoted the rise of a small privileged class of skilled workers preventing or making more difficult a general development of the economy.

Nor is it likely that aid will, under these conditions, be made in a freely convertible form by countries threatened with deficits, as such aid might result in a fatal increase in the pressure on the balance of payments, in a need for general deflation and thus a severe loss of purchasing power in the contributing country. There has been much loose talk about the damaging consequences of *tied* general aid, even if it is based on an agreed plan of development and only limited in that it must be spent in the territory of the contributor. So long as international monetary reform and close co-operation between industrialized countries does not provide monetary balance in the world economy, the only alternative to tying might be a reduction of aid. In these conditions tying is far preferable. On the other hand the contention that 'project' aid should be favoured in preference to aid to a 'plan' because in most recipient countries insufficient personnel and in consequence also incomplete data are available is to a large extent misconceived. Econometric models even in highly developed areas have a knack of going sour; administrative shortcomings are not confined to New Africa. On the other hand projects which are not based on an overall evaluation of the situation, and also on increasingly intensive resource surveys, have far more often proven ill-started than not. Moreover aid restricted to certain specific large-scale projects (especially if the latter are selected more in view of helping a particular industry of the contributor) might result in damage to the recipient, especially if in consequence the need for non-priority im-

ports (of intermediate products) increases and cannot be covered by the aid programme.[11]

Similar objections that have been voiced against bilateral aid and in favour of multilateral aid have been discussed in the introduction. The fact that agencies responsible for aid have been subordinate to the Foreign Offices of the main contributing countries[12] has tended to confirm these suspicions.

The use of aid and its withdrawal (e.g. Egypt 1956)[13] for political purposes further strengthen criticism. We have seen[14] that multilateral agencies and their activities are not without blemishes. The strengthening of regional and subregional organs, the careful selection and training[15] of UN Resident Representatives advocated in Chapter Nine has made some – but as yet insufficient – progress. The co-operation between the International Bank and some of the specialized agencies, especially the FAO, is a step forward also, though it might entail a growing influence of financial considerations in FAO's technical assistance activity in order to attract resource aid from the Bank. The Regional Economic Commissions, especially those in Latin America and Africa, seem to offer the best hopes for a constructive new departure in this respect. So long, however, as the Cold War continues, so long as aid is used in its pursuit, and responsibility for aid policy and contact with the United Nations and its Agencies remains under the control of foreign ministries[16] of the member governments which are staffed by diplomatists and tend to be devoid of expert knowledge of the problems of development, progress will be necessarily slow and limited.

[11] Though, as the example of a number of surplus countries shows, tying is not merely the outcome of balance-of-payments problems. Germany in particular has used it to boost her trade and conquer new markets which she can hold on the basis of her massive competitive edge. But this mercantilistic attitude might be mitigated in due course, while balance-of-payments difficulties inevitably entail tying or cutting aid. Cf. also Section Five, especially Chapters Twelve, Thirteen and Twenty.

[12] Except for France, but in her case the Ministry for Co-operation grew out of the Colonial Office and can hardly be said to have initiated a new spirit. [The organization of the Ministry of Overseas Development by the Wilson Administration, with a newly created expert planning division represents a new departure in this respect (1965).]

[13] [Pakistan, 1965].

[14] Cf. Introduction and Section Four, Chapter Nine.

[15] [In this respect the establishment of an Overseas Development Institute by the Wilson Administration will be of great importance. (1965).]

[16] [In this respect too the Wilson Administration has broken new ground. (1965).]

Section Five

REGIONS AND COUNTRIES

CHAPTER TWELVE

Mediterranean Hopes

INTRODUCTION

The Achievement and the Potential

In most of the Mediterranean countries, economic progress since the war has been substantial, in some more substantial than anything known before. This progress was on a broad front. Educational advance, which must be the basis of all economic and technical progress, was considerable. Moreover, in a large number of the poorest areas, administrative organs and specialized institutions had to be, and were, set up. In all the countries, the State undertook an increasing number of functions, and promoted a great number of development projects, at times within the framework of a general plan.

The record is certainly remarkable. But only in a very few of the countries, if in any, can it be said that there was a cumulative improvement sufficient to meet the social and economic demands with which governments are now faced.

Success in the early post-war period was, moreover, to a considerable extent due to the very marked improvement in the terms at which the exports of most Mediterranean countries – mainly agricultural products – exchanged with industrial goods which they imported. A number of them also accumulated large liquid reserves during the war with which to finance capital investment, and have received foreign aid since.

The terms of trade of Mediterranean countries have on the whole shown a deterioration since 1955, during which period there was remarkable prosperity in Western Europe. Foreign aid has been declining. If the consistent upward trend in Europe and the United States should change, and the present efforts to control price inflation

in more advanced countries result in a general recession, this change could not fail to have important repercussions in the region under consideration whose exports are vulnerable to a decrease in demand. The less developed areas, whose resources even now are hardly sufficient to sustain progress, would then probably be condemned to stagnation or worse.

Nature itself creates economic weakness in the Mediterranean through the vagaries of the weather and the absence of considerable natural resources. This weakness can be overcome only by sustained long-range planning. The necessary long-range planning is not easily accomplished, and the institutional framework – itself a heritage of the past – is not propitious. The determined efforts of governments in many parts of the region to overcome these institutional difficulties have yet to achieve success, and progress is hampered by great social and economic inequalities not only between people but also between regions.

The gravest menace facing the region is the continuous and potentially explosive increase in population in the face of an inadequate growth of productive resources. The relative insufficiency of recent development is partly attributable to the rapid increase in population, and this illustrates the self-defeating character of minor improvements. Application of modern sanitary and medical discoveries tends to reduce death rates very rapidly. General economic advance tends to bring in its wake an improvement in health; such improvement may bring only a very minor relief in the form of increased productivity. Hence there is a need for concerted measures to speed up development decisively, since in most countries a decisive spurt seems to be associated sooner or later with a decline in the birth rate. Development policies must, morever, be framed with the object of encouraging a more responsible attitude towards the family. An active participation of broader masses of the people in the formulation and execution of development planning might well bring about a change in the present fatalistic attitude and, by generating a belief in planned improvements of living standards, foster a fall in the birth rate. Urban growth might also well have to be tolerated on this score even if from other points of view it was not so desirable. It should be noted that even urbanization might in many countries inevitably stimulate a rise in population through a decline in infant mortality. There is still likely to be no country which will not be affected by a fairly high rate of population growth. Even given the unexploited or

ineffectively exploited resources of the region, and given the capital to build the necessary installations to exploit them, most countries may find it difficult to increase living standards if present rates of population growth are maintained.

The Strategy of Development

The basis for future strategy must be the fact that a speeding-up of economic development is both possible and desirable. On the other hand, if an effort at quickened development has been undertaken, numerous institutional and technical problems will emerge, especially in so far as the agricultural and skilled sectors are concerned. These problems will demand a new approach in many sectors of the economy. But they might be managed without violent changes, and still further restraints on consumption, especially if the poorer areas of the region were able to obtain sufficient foreign aid.

In judging the scope for accelerating growth, the marginal character of the purely economic problem must not be overlooked. In the majority of the countries of the region, investment ranged between 12 and 18 per cent. of the national income. Of this, however, only up to 25–30 per cent. was allocated to agriculture and industry, i.e. between about 3 and 5 per cent. of the national income. These figures, however, are *gross* figures, i.e. they include replacement for wear and tear and obsolescence. And while the concept of creating *additional* productive capacity in contrast to *replacing* existing one is necessarily vague, as the replacement of old capacity by new seldom takes place without any increase in productive power, it is evident that a large portion of the total – between one-third and two-thirds – must in fact have represented replacements. Thus, the net addition to productive capital investment could not have amounted to more than between 1 and 3·5 per cent. An increased allocation to directly productive investment in agriculture and industry of between 1 and 2 per cent. of the total national income, a very small fraction, would represent an enormous increase – 50–100 per cent. – of the rate at which the capital equipment of agriculture and industry is expanded. While the acceleration of progress would certainly be much less than in proportion, it would be considerable and might make the difference between success and failure.

Much less easy would be the change in basic attitudes. Vastly greater efforts are needed to obtain this. Only programmes which

make adequate provision for this fundamental need for psychological change can hope to achieve any success.

No single remedy can be expected to work. The problems are complex, and their relations to one another vary from country to country. What is needed is a broad programme which is balanced in the sense that it takes into account the long-term requirements of sustained progress. It should include a continuous attempt to change the framework of economic activity (in terms of attitudes and administration); and, in the various economic sectors, intensification of agriculture, improvement of soil and water conservation, improvement of grazing patterns and animal husbandry, a prevention of deforestation with all that it implies, and finally, a speeding up of communications and industrial development. In this way, the insistent twin problems of rural overpopulation and low productivity can be tackled simultaneously. It must be a programme in which the indirect effects of investment are fully taken into account, since these may justify the investment even if direct profitability is not assured. It may also be one in which the point of view is long, and which, therefore, will not concentrate on achieving quick increases in income at the expense of long-term targets of economic balance. The problem of land and water services is merely one aspect of the desperate capital shortage. Such a long-term point of view can hardly be expected to receive due consideration if development is left to the unaided and unguided action of individuals.

No programme, however carefully elaborated, can succeed if the population of the country is not behind it. Sacrifice and harder work and a change in attitude demand an immense effort at mass communication. Experience in countries outside the region where such effort was tried has been very encouraging. In parts of the region, the experience has been similar. Provided the immediate self-interest of the peasant and worker in the improvement can be visibly demonstrated to him, adaptation to new ways can be far more rapid than could have been expected on the basis of the past history of stagnation. It is this need for immediate benefit which renders the role of systematic foreign aid in a transitional period so important. Incentives acting on self-interest are costly in terms of resources. Yet they seem both a more solid and, in the long run, more effective basis of development than efforts which are based on deterrents or penalties. At the same time as these incentives become operative, however, a continuous educational process has to get under way, the objective

of which will be to make the populations aware not only of their immediate but also of their long-term gains through development.

The timing of this programme will be of particular importance not only in the long run with respect to the creation of the right frame of mind towards development, but also in the short run in preventing the monetary developments associated with the execution of the programme from jeopardizing its success. Such developments, if allowed to get out of hand, could accentuate the tendencies leading to a misallocation of investment, and compel the adoption of even more detailed control measures which those countries would for long find it difficult to administer efficiently. Great care will need to be taken in the countries of the region which have had experience of inflation in the recent past; in the Northern Mediterranean region especially, the sensitivity of these countries to inflationary developments is particularly high, and its effects particularly great, because the economies are more closely integrated.

This, however, should not be considered as an excuse for monetary sterility. A judicious flexibility in the attitude of monetary authorities, their assumption of calculated risks of rises in prices whose effects are likely to be innocuous or to be offset by rapidly increased supplies, is immensely preferable to the sacrifice of a systematic attmept to secure growth. Provided the period and intensity of monetary pressures are correctly assessed, and adapted to the social and economic framework of the country, the deliberate injection of additional purchasing power needs to be reckoned as one of the instruments of policy. No doubt, any course of action is inevitably fraught with danger, but the danger of lessening economic progress, of slipping into deflation, is one which seems the most acute and the most widely disregarded.

It should be understood that any conscious action to speed development is dependent on the improvement of the administrative machinery. Such improvement is possible but the difficulties in the way of improvement must not be underestimated. There should be no illusions, moreover, about the power and pervasiveness of some of the measures of control necessitated by any such plan. These powers can be abused. The basic assumption of this report is that they will be used to good purpose for the benefit of the community at large.

THE MARGIN FOR EXPANSION

We shall now consider the resources which are at present being wasted or used inefficiently and could be mobilized for further progress. They consist, first, of the most valuable asset of these countries – their manpower; secondly, of idle capacity in some of their major industries; thirdly, of the potential which can be created by reallocating resources to build up the economic strength of these countries; and fourthly, of the slack in the balance of payments.

Underemployment

It is extremely difficult to give even an approximate estimate of the degree of underemployment or unemployment in the region. The very concept of unemployment, and even more of underemployment, is an extremely difficult one in circumstances of very low productivity. Agriculture, the major employment, is mainly a highly seasonal activity, with heavy demands for labour at seedtime and harvest, and frequently long slack periods in between. Productive technique is not static, and the physical possibilities of applying new techniques are immense. Moreover, the technique which would be most appropriate to the conditions in those countries is likely to change as the economies develop, since the relative costs and availability of factors of production will change. As the Syrian and Turkish examples show, revolutionary changes can be produced in a very short time in the modes of production. Even the poorest country in the region maintains an appreciable capital accumulation, and labour requirements could be lowered appreciably without capital investment by better knowledge and skill. Even with substantial underemployment, many better-off farmers tend to introduce labour-saving machinery because of the demonstration effect, even when it is not economically justified.

In some cases, when circumstances arise which induce a change[1] in production techniques, the change may be so violent as to create rather than solve problems.[2] This has happened in some industries

[1] Change may come about for several reasons, all of them closely connected. The rise of commercial-tractor owners, i.e. the emergency of an entrepreneurial class desirous of maximizing short-term profits, came at a time when there was a shortfall in world cotton supplies and prices rose. Both played an important role in Syrian mechanization.

[2] See, for example, *American Economic Review on Turkey.*

when the necessity to compete with imports has induced employers to adopt capital-intensive and labour-saving techniques. It has also happened in agriculture when the shortage of labour in lands newly brought into cultivation in Syria, Turkey, and to some extent the north of Iraq, induced highly mechanized farming.

The level of underemployment, even on a conservative estimate, appears to be very considerable, especially if the policy of expansion takes due account of the seasonal nature of the underemployed.

Excess Capacity

It is paradoxical that in spite of the great shortage of capital which prevails in the region there should be excess capacity. It is true that the definition of excess capacity is particularly difficult. It is essential to determine the technique which should be considered minimal before a certain piece of equipment is judged obsolete, and to clarify the concept of degree of utilization. But there is no doubt, from what is known about a number of countries in the region, that excess industrial capacity exists in the region, and that it is not confined to the handicraft sector.

Since machinery installed in recent years is likely to be more productive than pre-war equipment, its under-utilization is all the more serious.

The Slack in the Balance of Payments

A majority of countries of the region experienced a steady improvement in their international gold and foreign-exchange reserves during the post-war period, and the price level remained relatively stable or declined.

Moreover, these countries have experienced on balance some improvement in their international trading position, and it seems paradoxical that this improvement should not have been immediately used for an intensification of the policy of economic expansion. There seems to have been a considerable sterilization of resources. One of the reasons for this situation was the heavy reliance on monetary controls alone which made governments unwilling to risk an increase in incomes, and another connected reason was the absence of confidence in the adequacy of the administrative machinery to organize the investment required for expansion, or to implement the physical controls necessitated by an increase in demand.

THE LIMITS OF EXPANSION

Thus there seems some scope for accelerating economic growth in the Mediterranean. It will not, however, be easy to start a balanced expansion, and if an expansion is started two types of problems will arise. The first would arise in any economy when the slack in capacity and in the balance of payments is taken up. As the slack disappears, the structural difficulties which will have stood in the way of an initial start will appear clearly to view and will need to be faced squarely. They will retard the response in terms of increased output to the increase in demand caused by the investment and the incomes created by it. It will be most important to establish an administrative framework conducive to development, and to take measures designed to change low elasticity of supply of skill, the absence of social overhead capital, and the structure of agriculture.

The Administrative Framework

The Absence of an Integrated Approach in State Planning

It has been said that the State has been playing an increasing role in all of these countries. An attempt has also been made to give purpose and direction to State action by the elaboration of development plans. The usual approach has been to elaborate a series of specific projects, either in land reclamation and drainage, or to eliminate particular bottlenecks, or to invigorate particular sectors with the object of improving the foreign balance. The Vanoni plan for Italy, which devoted serious attention to the general problems of development in Southern Italy within an integrated framework, is an important exception.

This piecemeal approach was largely due to the lack of certainty about how much expansion the economy could stand. There was uncertainty about a foreign balance susceptible to harvest fluctuations; there were doubts about whether present rates of agricultural expansion could be maintained, and hence fears of increases in imports; and there was also uncertainty about foreign aid. Above all, there was lack of a clear philosophy of development within which attempts would be made to minimize the impact of these uncertainties.

Annual Budgeting

The piecemeal approach to economic development has also been due to the practice of annual budgeting. The tradition of yearly budgets and of yearly voting of revenue was evolved in Western Europe to check absolute monarchy. It has been retained in order to ensure democratic control over the executive, but it can seriously hamper long-term economic development.

Annual budgets seem inevitable in the circumstances of most weaker agricultural countries, since their national income, and thus their capacity to undertake investment, is primarily determined by the vagaries of the weather. But this inevitable uncertainty has been reinforced in the post-war years by the lack of assurance on the continuity of annually budgeted foreign aid. Foreign aid has been an important ingredient of post-war progress but uncertainties about its future level have made its full utilization impossible. The risk of sharp fluctuations in aid reinforced other influences which made for increased reserves rather than increased investment. Only in Iraq could longer-term (five to-six-year) plans be safely elaborated, based on assured income such as that from oil receipts. A piecemeal approach to development was encouraged, first, because commitments were decided upon as and when means become available and, secondly, because foreign aid like private capital has usually been given a specific form.[3]

The Administrative Structure

These uncertainties have prevented a full use of resources for the gradual strengthening of the economy, which would have weakened the impact of changing seasons, and lessened dependence on foreign aid. Even without these uncertainties, administrative weaknesses in administration would have made it difficult to make the most economic use of both foreign and domestic resources. These weaknesses persist despite the fact that in almost all countries the need for conscious action was admitted, and special agencies were created.

[3] Loans from the International Bank to the Cassa per il Mezzogiorno, which were given on the basis of fairly integrated programmes, are an interesting exception. Unfortunately, the Bank is usually not able to grant loans for more than the foreign-exchange component of the project approved. In this way, the consequential increase in incomes and imports is left uncovered, and weak countries are thus prevented from using loans. [This is no longer the case. (1964).]

The administrative machine still needs to be strengthened considerably to carry a major burden of expansion. To some extent, this is accounted for by its piecemeal growth. The proliferation of agencies responsible for development has in fact been a major obstacle to progress in many countries.

There were increased demands for general administrative services after the war, especially in countries where war damage had been severe, or which attained independence. Economic administrations had yet to be created. Their establishment proved, under the circumstances, extremely difficult. Moreover, tradition and history militated against it in large parts of the region. The fact that a great number of separate States arose in the area meant that the demand for scarce specialized administrative manpower was exaggerated. Even if education ratios were as high as in Western Europe, difficulty might have been experienced in manning these separate hierarchies of administrative cadres, for they demand a minimum personnel, and the minimum is high relative to the population of the countries.

Reorganization of the administrative machine and more especially its economic part is an absolute necessity; but the acquisition of mere technical administrative skill would certainly not suffice for success. The attitude of the Administration to the population must change in a large part of the area, if only in order to change the attitude of the population to the Administration and to the concept of the State itself. The Administration needs to reach down to the people, explaining policies and enlisting wholehearted support. Otherwise the State will continue to be regarded as the oppressor (as it has been regarded in large parts of the region in the past), and the people will try to thwart all efforts at planning and escape taxation as much as possible. This is a change which cannot come overnight. The whole history of the region is opposed to it. It can come only through a long process of education at all levels. Much greater attention than hitherto must be paid to community development and extension-service work.

Non-technical Education

One of the chief sources of trouble is that the economic and social part of the Administration does not exert a great attraction on the most able candidates. There is a prejudice in favour of that type of general literary, and legal schooling which leads to the summit of the

Civil and the Diplomatic Service, and against the technical and vocational training which is the basis of productive enterprise. In circumstances where skilled administration and managers are very scarce, this prejudice has insidious consequences.

It would be essential, therefore, to press for a general reform of the educational process and buttress measures in favour of technical education by a systematic preference for the acquisition of technical skill in State employment. Here again, vast obstacles embedded in age-old tradition will have to be overcome.

Social Attitudes

Social Connections as an Obstacle to Administrative Reform and Entrepreneurship

The intense loyalty to the family, and in many areas to the tribe, buttressed in many cases by legal provisions concerning property, is one more major obstacle to the reform of the administrative structure. It also has important consequences on entrepreneurial behaviour and horizons. If the choice of the administrator or the business partner is restricted by bonds of blood or sympathy, the possibilities of expansion are *ipso facto* narrowed. Administrative efficiency, as well as entrepreneurial activity, is impaired. Thus the difficulty of establishing effective instruments, public and private, through which long-range plans can be formulated and put into effect, is increased. It is in those areas where tribal authority is strongest that the central government finds it most difficult to stimulate expansion.

The Mercantile Spirit

The predominance of the mercantile over the entrepreneurial spirit in a large part of the area has several serious consequences. It results, first of all, in the absence or insufficiency of long-term productive investment even when it is obvious that profitable outlets are available. The expansion in Syria and Turkey and the establishment of several highly successful manufacturing establishments show how much could have been done even without conscious overall stimulus. The lack of entrepreneurial spirit lies behind much of the shortfall in investment. The example of Southern Italy is striking from this point of view. Though a large investment programme has been initiated,

the response in productive investment and output was not sufficient to retain the incomes in the region.

The predominance of the mercantile spirit among the property-owning urban elements has a further distressing consequence. A closely knit interest maintains profit margins far beyond the level of far more advanced countries. This aggravates the problems of agricultural producers and, as we shall see, encourages subsistence farming. Moreover, tax evasion, or the virtual absence of taxation, buttresses net profits. In some countries, merchants have begun to realize the profitability of large-scale investment in productive enterprises in industry or in the land, particularly when an upsurge of production, initiated by State action, has led to an increase in demand. Generally, however, so long as merchandizing assures high incomes without much effort or risk, it is not unnatural that the more complicated, exhausting, and risky entrepreneurial functions are neglected.

The volatility of the mercantile spirit, moreover, introduces a severe instability in the system, as any change in supply is exaggerated by speculative purchases and sales which considerably complicate forward planning.

Social Readiness for Development

Economic growth is not only impaired by the discrepancies between social classes but it is also disturbed and may be defeated by the unbalance between regions as between mountain and plain and as between urban and rural communities. There is a seeming immobility in the whole system, due to a lack of communications and common background, which, if taken at its face value, appears to condemn those countries to stagnation.

These rigidities are to a considerable degree the result of the isolation of life. Mountain and desert areas with little or no facilities for communication and without widespread educational opportunities are specially subject to these disabilities. The low state of health and nutrition are added depressive factors. The observer is often misled into thinking that change is alien to the fundamental character of the people.

The rigidity of rural life, and the lack of a spirit of adventure can be exaggerated, as the immense expansion of agricultural output in Turkey and Syria shows. Moreover, the beginnings of industrialization in many of the countries in the region have shown that labour is

by no means as unadaptable or immobile as it is usually thought. Indeed, there can be little doubt that the lack of response from the peasants is being exaggerated by those who wish to emphasize the difficulties in the way of change, and who are unwilling to tackle uncomfortable problems. However, unless the initial resistance is overcome, and a way found to give those reassurances which would evoke the response required, this disjointedness of the social and economic system, coupled with the immense remoteness of parts of the rural area, will constitute a serious bottleneck in future development.

The construction of rural roads, the creation of educational and health facilities, community development schemes and extension services, and, last but not least, the creation of employment and income to enable the peasant to use his quickening perception and become interested in furthering his own progress – these are the elements of the solution.

The dominance of merchants, and general difficulties in the distribution system, result in a margin between buying and selling prices which is so great that the real advantages of specialization are not apparent. Thus real income is depressed because the peasant is forced in self-defence to become as nearly self-sufficient as he can, instead of concentrating on more suitable crops and meeting his other needs from the proceeds from these crops.

The extreme short-run instability of primary prices (associated with the vagaries of the weather) further accentuates the spurious attraction of self-sufficiency. The peasant must protect himself against sudden impoverishment by providing for his own needs. The provision of security through efficient marketing organizations and by making storage space available, and by providing credit on reasonable terms, pose further difficult administrative tasks. But a major effort to protect the farmer from possible exploitation has already been made through State purchase operations in some countries.

The Sluggishness of Agriculture as a Brake on Economic Development

Perhaps the most important limitation on expansion in the area has been the slow response of agriculture. There is a danger that agriculture will continue to act as a brake on economic development unless drastic action is taken. This is the result, firstly, of the importance of food in total consumption. In almost all the countries of the

Mediterranean region, calory levels are roughly adequate for climatic conditions. But the diet is poor. An expansion in incomes would result from a major development programme, and the increase would presumably not be confined to the highest income groups. It would, therefore, generate a demand not merely for an increased quantity but also for diversification and a higher quality of food.

An increase in income per head is likely to shift demand towards animal products. Unfortunately, these are the products whose expansion will prove most difficult.

So long as agricultural supplies can only be increased sluggishly, this expansion in demand is likely to result in increased demand for imports. Here, however, agriculture acts as a brake once again, since agricultural exports would have to be expanded to finance the increased imports. The dependence of these countries on agricultural exports for their foreign exchange varies greatly. In Iraq, a high proportion of foreign-exchange receipts are derived from oil; in Turkey, agriculture accounts for about 80 per cent. of total foreign receipts. Agricultural exports of the traditional kind are of major importance for most of these countries. An expansion of such exports, however, meets with several difficulties. Limitations to foreign demand (agriculture being a favoured sector in almost all countries), and the relative stagnation of demand for many of the products of the region, put the whole burden of export promotion on price and competition, and hence on a reduction in production costs and improvement in quality. This quality is difficult to achieve unless a major programme of agricultural development is undertaken. It is also evident that in Western Europe the markets for meat and fruit are the only ones which offer a promise of substantial expansion in the future.

Though the experience in Turkey and Syria of the response of agricultural production to changes in demand was encouraging, there are reasons for regarding these responses as exceptional. The restrictive effects of land-tenure systems, together with the lack of adequate transport and marketing facilities, blunt the edge of money incentives. The existence of a heavy surplus rural population is a further obstacle to progress in agriculture.

The risk of crop failure also increases the problem of achieving a smooth expansion of the economy, especially in the absence of a system of mixed farming where livestock output might cushion the impact of harvest failures. This could be guarded against by the

establishment of stocks, and through a general agricultural policy which would render crops less dependent on the climate.

Almost all the countries in the region have experienced this braking effect of low elasticity of agricultural supply and the disturbing effects of sharp variations in agricultural output. Some countries, such as Turkey in the 1930's, or Spain, until recently, proceeded with selective expansion biased towards industry but inevitably had to turn back to agriculture. The experience in all the countries of the region has shown that agricultural development is a *sine qua non* of more general development, and the obstacles to agricultural expansion, therefore, deserve greater consideration.

The Need for a Systematic Attack on Agricultural Problems

There were some disturbing features in agricultural progress. There was, first of all, the impact of the weather. The vast improvement up to 1953 in Turkey and in the Fertile Crescent can, to a considerable extent, be attributed to the exceptionally favourable weather. Subsequently, a series of mediocre or downright bad years wiped out most of the gain and inflicted severe hardship on the population.

The severe fluctuations show the immense risks of Mediterranean agriculture and the need for substantial improvement which will reduce the impact of climate on output. Areas of similar characteristics which are more diversified and have attained a higher level of technique do not show such a marked vulnerability to climatic changes. Here the erosion and degradation of the soil, the problem of cultivation where there is no shelter from winds, the length of growing seasons in unfertilized soil – all these increase risk in an already difficult situation and indicate the need for water and soil-erosion control measures, including controlled grazing and reafforestation.

Secondly, it should be noted that much of the increase in agricultural output in some areas (e.g. Turkey and Syria) was obtained by extending the cultivated areas. Consequently, the rate of increase of the past decade could in many cases not be sustained in the longer run without a considerable investment in agriculture, coupled with the introduction of new techniques. Both would impose additional administrative strains. Thus there are doubts as to whether even the moderately satisfactory post-war progress in agriculture can be maintained in the absence of far-reaching development measures.

The climate and soil of the Mediterranean region make progress difficult, though it is true that areas with similar climates and soils have shown great progress in the past. What is needed above all is conscious co-ordination, and organizing power.

For instance, the use and conservation of water calls for elaborate institutions to regulate the seasonal flow of rivers. Once this power to control water vanished or became weaker, and administrative efficiency declined, productivity also declined. In large parts of the area, the nomads and shepherds, who had once been pushed farther back, have taken over. But they unknowingly undermine their own livelihood by their desperate efforts to live. They squander the capital of the soil in the range lands and the forests, and condemn themselves to misery. And in large areas, it is the merciless increase of population that forces people to live on that most basic of all social capitals – the soil. In the troubled history of this region, the basic overhead agricultural capital was never maintained for any length of time, and in some parts it is still being destroyed. A new, determined, and co-ordinated effort is obviously needed if the trend is to be decisively and permanently, and not merely feebly and temporarily, reversed.

The Defective Operational Framework of Agriculture

Defects in the operational framework of agriculture have been important impediments to an increase in agricultural productivity and hence to basic improvements in the region. As a result of continued population pressure the size of holdings has tended to decline over the years, particularly in Egypt, Tunisia, and Morocco, where the expansion of the cultivated area was very limited. In Jordan, Israel, Turkey, and Iraq, the average size of holdings (as units of cultivation) is not very small but even there the median size of holdings is very limited indeed. About half the farm population in these countries (or roughly a third of the total population) work on dwarf-holdings.

Although it is true that a farm of under five hectares may satisfactorily maintain a family if half of it can be irrigated, this area is quite inadequate in the semi-arid dry farming areas. The percentage of irrigated land to cultivated land is approximately 4 per cent. in Jordan and 1 per cent. in Turkey but 77 per cent. and 85 per cent. respectively of their agricultural land is in holdings of less than ten hectares. The majority of these small farms must, therefore, lack

irrigation and are unlikely to provide more than subsistence for the holders.

The proportion of farming for profit is, therefore, low in the Mediterranean. Fragmentation caused by ancient laws of inheritance and land tenure often results in serious complications. Where property is divided among all surviving dependants, a large number of persons come to share the ownership of a small piece of land or even of a single tree. In Libya, on the contrary, where the tribal system survives, land is often held communally, and over the years the same piece of land may be allotted to several farmers in turn. Thus individuals have little incentive to improve their arable land and, unless the co-operation of the entire community can be obtained, there is difficulty in applying better techniques or patterns of production.

If there is competition for scarce land, or there is a shortage of implements to cultivate it, the production of human food or of higher-value intensive crops (such as tobacco) have first consideration. The co-existence of shepherds who own no land and cultivators who own no animals is a potent factor in limiting fodder production and reducing animal husbandry to its lowest level.

In the absence of mixed farming, the nomads, shepherds, and free grazers have little interest in maintaining, let alone improving, the grasslands. Mismanagement of the grasslands ruins the pastures. The cumulative misuse of land becomes increasingly difficult to arrest. Clearly the problem must be tackled in the context of a general land-utilization programme.

Land Tenure

There are wide variations in the system of land tenure in force in these countries, but a well-balanced structure of medium-sized operational units (20–200 hectares) of the type characteristic of Western Europe is absent. In Israel, co-operative ownership has developed rapidly. In Spain and Turkey, there are large differences between regions, owner-operated farms being especially numerous in the rain-fed areas.

In most of the countries of the Middle East, however, the nomad tribal traditions are combined with the Ottoman law of land tenure and autocracy in one part, and feudal organization in another. These, together with the Mediterranean practice of sharecropping, have created a situation in which the social consequences of an extreme

inequality in distribution of wealth are combined with the economic disadvantages of the disintegration of operational units.

The dwarf-holders, nomads, and shepherds and the totally landless labourers make up half or more of the total population in most of these countries. These poorest sections of the population have neither the means nor the incentive to develop agriculture or consume industrial products.

The new class of commercial farmers in the Fertile Crescent, and well-to-do farmers elsewhere, work large tracts of land – often leased from large landowners – using much agricultural machinery and hired labour or sharecroppers. But, despite efforts at land reform in some countries of the area, the concentration of landed property into few hands, combined with rural overpopulation, still prevents the development of the incentive to change production methods.

The small peasant owners characteristic of the areas more fortunate in land and water are of course better off, but even they would not be able to manage the soil to the best long-run advantage without substantial assistance. Even if technical knowledge and skill were available, they would have to obtain organized credit and procure the implements and means of progressive improvement such as improved seed, fertilizers, and the like. The small farming unit requires services and organizational help to render it capable of accepting modern methods, and in fact to reach the size required by the technological combination which is most appropriate at different phases of the development programme.

The Exception of Large Estates

There have always been exceptions to this general picture. In Spain, in Western North Africa, and in Italy, Greece, Turkey, Syria, and Iraq, there are large properties where capital intensity and expert knowledge have raised yields far above the low average level. And much of the post-war extension of the area's cultivation has been achieved by large-scale enterprise using machine power. In some cases, however, even these developments had unfavourable effects on long-run soil fertility. When the land was leased, the mechanized farmers' objective was to recoup their outlays in the shortest possible time and thus guard against the fearful risk of crop failures. Only in very few instances was land tenure based on the technical require-

ments of agriculture (e.g. in the large estates of Greece and Egypt based on reclaimed land).

The Absence of Mixed Farming and the Problem of Grazing Land

Where farms are very small, it is rare to find any emphasis on animal husbandry. Only work animals are kept in the farm, and most of the livestock are maintained on the grazing areas. In the Near Eastern countries, these are held either communally by tribes or by the State. Tribal grazing rights, particularly in Iraq and Syria, are established by custom and regulate the communal or individual usufruct of vaguely defined areas of land. Such land is rarely surveyed, and the rights are seldom recorded in such a form that the right-holders possess deeds which clearly show these rights and their recognition by the State. As settlement of title proceeds, the holders of usufructory rights are granted some form of title, which in due course leads to ownership of land. The trend after survey and settlement of title is undoubtedly towards arable farming, and so towards the exclusion of the grazier. The stock owner finds that he can only graze the settled areas when the lands are in stubble, in temporary grass, or weed fallow, and by paying for the right to graze. There is no incentive to improve grazings, since there is little personal interest in such improvement, and the State does not assume any positive responsibility for maintaining the productivity of pastures. The situation is even worse when flocks are owned by city dwellers who pay shepherds to look after them. Theoretically, the settlement of a tribe or part of a tribe formerly nomadic in habit might improve grazing habits. But it often merely upsets the rotational grazing practice, and stock is kept all year round on land which was formerly alternately rested and grazed. Settlement of nomadic tribes would therefore need to take into account these technical requirements.

In general, the present trend towards settlement is working against the nomadic stock-owner whose livelihood depends on stock farming.

In Greece, the problem of range tenure is under intensive study. The situation there differs from that in the Near East but it provides good examples of the problems common to the more mountainous areas of South and South-east Europe. These areas are the main source of forage for sheep and goats. In Greece, 95 per cent of forage is provided by mountain grazing lands. There, 63 per cent. of the area is owned by the State. The communities also have their own grazing

lands (about 15 per cent. of the remainder). Each community can legally not only use its own and the national land for grazing its livestock but it can also lease these range lands to livestock operators living outside the community territory, and also to nomads. Since the leases do not stipulate grazing regulations, and are often of only one year's duration, they frequently result in overstocking, premature grazing, and, generally speaking, in misuse of leased land.[4]

Because of the uneven distribution of livestock ownership, and the lack of interest in the welfare of the land resulting from this and from the land-tenure system, pastures on some watersheds are being overgrazed. Forty-six per cent. of the total watershed area of Greece has been classified as severely eroded and as suitable only for forests. The average annual income of families in the Arachtos River watershed area under this destructive system is far below the minimum considered necessary for subsistence in Greece.

Shortages of Skill

There are, even in countries with severe underemployment and unemployment, shortages of labour which may check a programme for expansion.

While there is much underemployment and unemployment the supply of manpower of sufficient skill might be difficult to increase; the general basic education which would be sufficient to awake an interest in progress, and which would stave off apathy, cannot be quickly provided.

In many areas, there has been a great lack of educational facilities. Such education as there was tended to concentrate on literary pursuits, or the interpretation of the holy writ or the law. Technical education was not merely ignored but was held in contempt – a contempt almost as great as that felt for the manual labour which it might involve. The impact of nomad traditions in the East were reinforced by religious and cultural tradition. A hierarchy of occupational taboos evolved which had extremely unfavourable consequences on the efficiency of the system and on the drive towards a different pattern of production, greater efficiency, and a higher standard of life.

[4] P. Margaropoulos, *Mountain Range Management and Improvement in Greece*, Ministry of Agriculture, Greece.

The Shortages and Maldirection of Investment

Lack of Capital

In most of the countries of the southern and eastern part of the Mediterranean, the substructure of social investment in public utilities and education is insufficient. An attempt to supply it will be costly, and it has relatively low immediate direct yield.

Productive Investment

It is the relative failure of productive investment, however, that lies at the root of present difficulties. The stimulus to productive investment, which comes from an increase in home demand for home products, was largely lacking. (Paradoxically enough, in some cases, it was the unco-ordinated and speculative nature of such investment as was undertaken which was at least partly responsible for this failure.)

Agricultural mechanization was generally labour-saving, and industrial investment largely capital-intensive. On balance, therefore, the expansion of private investment did not have a marked effect on employment. Thus, in a number of countries, the post-war boom has been followed by a noticeable slackening of demand, which left both labour and capital underemployed. Many of the export markets of the area have also narrowed (quite apart from the impact of the Suez crisis), and the opening of new outlets in Eastern Europe has not made up this loss. Consequently, there is a growing difficulty in finding markets.

The full expansion of investment was impeded by the large expenditure on defence – except where this was financed by foreign aid which was granted explicitly for this purpose. Expenditure on defence represents 4–8 per cent. of the national income and runs much higher in some individual countries. It might, therefore, in critical circumstances represent the difference between just keeping abreast of the increase in population and an accelerating cumulative growth.

The mere initiation of an investment programme may not evoke any rapid response in productive investment or output. The incomes generated may (particularly if they accrue largely to upper-income groups) be dissipated in imports.

Not only was there a shortage of investment but it is evident that there was also widespread maldistribution, both in terms of the type

of machine used and of the techniques adopted, and also in terms of the sectors to which it was devoted. Valuable resources were used for the import of machinery, even when unemployed or underemployed labour could have done the job.[5] To some extent the lack of intermediate technologies was responsible for this failure. Most present machines are not evolved for the countries in question but for highly industrial countries in which there is a relative abundance of capital. Often, however, the technical advance embodied in these relatively labour-saving appliances and techniques is such that they will reduce costs even if wages are low.

There has been a general tendency in underdeveloped areas to adopt the most up-to-date techniques, regardless of whether they are economic under the conditions of the country or not. This is especially marked where private entrepreneurs may profit by adopting large-scale mechanical production methods (tractors, combines, cotton-pickers), which yield profits to the landowner by reducing labour costs but, as in Turkey, throw out of work large numbers of previous sharecroppers or labourers, who are added to the unemployed. Changes beneficial to individual profit may thus be uneconomic from the broader social view, at least over the period until general economic growth promises substitute useful employment for the workers displaced.

It is important to discourage the diversion of investment capacity into sectors whose contribution to economic growth is small or lacking.

The Fear of Inflation

No institutional reforms can have real effect until a psychological problem of great importance has been solved. The problem is the fear of inflation. In a great number of countries this has impeded development.

Most reports dealing with the economic problems of the eastern and southern shores of the Mediterranean, and also some of those for the Southern European countries, have been preoccupied with the problem of preventing inflation. And the monetary institutions which

[5] For example, road-building in Turkey was highly mechanized. But it should be noted that the use of highly mechanized techniques in public works projects can be said to have an educational value, in that the labour employed with the machine acquires some experience of capitalized processes.

have been created – partly when a large area of the region was not independent – were dedicated to the same purpose. The only exceptions were the Industrial Development Corporations and Agricultural Banks, which did play an important part in the progress of the area but whose activities were limited in comparison with what could have been achieved if they had followed policies better adapted to integrated development.

During the post-war period, many countries of this region – Italy, Greece, Yugoslavia, Israel, Turkey – and Spain even today, have suffered from more or less acute or even astronomic inflations (or balance-of-payment difficulties), which brought about exchange devaluations, upward trends, more or less acute, in price levels, and in some cases, as in the astronomic inflation in Greece, complete breakdown in the use of bank deposits by private individuals, and a flight from currency to goods. These countries have now made great and most successful efforts to stabilize their currencies and restore the confidence of their people in banks and in money. All these inflations, except in Turkey (and to some extent in Spain), have been the result of war and destruction. They have left behind them a comprehensible fear of inflation which at this new stage of development tends to prevent a full use of productive power. In a number of countries, of which Greece, Iraq, Syria, Jordan, and Italy are examples, productive power could be increased even more rapidly than has recently taken place, and available productive power more fully used. Price rises in limited sectors of the economy which are associated with such increases in productive power differ in their nature from the wage and cost inflation in more developed areas, and from inflation due to speculation and distortions typical of war and immediate post-war economies.

It is, therefore, not to be expected that the prescriptions appropriate to more developed countries will be applicable without modification to countries of the Mediterranean region. Thus we must severely differentiate between the various types of rise in prices according to what sector they originate in, and what sector they affect. A rise in wages, for instance, would have very different consequences from the speculative hoarding of food, though both might result in an increase in prices.

Chronic inflation, originating in disequilibrium on the current side of the State budgets, has a destructive and depressive effect on economic development. But a careful stimulation of productive activity

might provide a necessary initial impetus. It must be used with extreme caution and only as long as some slack in the system exists, while the major part of the resources for development are obtained by other methods. It should also be emphasized that any such speeding-up of development will necessitate a decisive broadening of the administrative machine, and this might initially be possible only by using foreign experts more consistently and in a more co-ordinated and effective manner than hitherto.

Monetary Sterility

The fear of inflation is embedded in the banking structure of most countries in the region and seriously interferes with the channelling of the scant savings into the most urgent investment. The banking systems of the area were not created to serve economic development. They were created to serve international trade and to safeguard the currency. No doubt, these were important tasks. They must not be erected into absolutes, and the requirements of economic development and progress altogether disregarded. Otherwise an artificial stimulus, a hidden subsidy, is given to international trade rather than the development of home industry.

The problem is admittedly a difficult one. On the one hand, the few savers want security and protection from depreciation, and at the same time wish to be able to withdraw and mobilize their savings at short notice. On the other hand, what the countries need most is the long-term investment which would reduce dependence on outside help. The contradiction between these is patent. There are no liquid assets of good standing in which the saver could invest. The national debt is not managed with this aim in view and the institution of new central banks has done little to change this situation. The whole trend is, therefore, towards the export of capital or the hoarding of money, gold, and goods. The solution, of course, lies in the direction of developing a corporate structure of industry which satisfies the liquidity preferences of the savers and the industrialists' demand for funds for long-term investments.

If only paper money were hoarded, this could easily be offset by an expansion of credit if the requisite banking structure were created. Indeed, the spread of the use of money and of the money economy might become, in this way, one of the important sources of finance of long-term investment. But the hoarding of gold, foreign assets, and

goods precludes a productive employment of resources. In any case, the banking structure is not capable of bridging the gap between savings and investment.[6]

In Britain and the United States at comparable stages of their development, country bankers, and indeed wildcatters, bridged the liquidity gap between insistence of savers on liquidity and the need for long-term commitments to foster steady technical progress. Institutions appropriate to a mature stage of development would not necessarily constitute sound canons of finance in an entirely different situation. It may well be that, in the special setting of the Middle East, the government or government-guaranteed institutions can secure finance to speed on development more effectively than can private financial enterprises.

THE AIMS AND MEANS OF POLICY

The Objectives of Economic Policy

The maximum increase in the production and income of the region has usually been accepted as the fundamental aim. This should be qualified, however, by the need for increasing employment; and by the need for reducing the uneven distribution of income, not merely between different occupations and regions, town and country, mountains and plain, skilled and unskilled labour, but also between those who enjoy regular employment and those who do not. The programme should also have due regard in its land-use proposals for the need to preserve soil fertility in the longer run.

The achievement of the objectives of increasing national income, increasing employment, and reducing inequality might conflict with one another. The weight attached to any single one of these objectives,

[6] IBRD, *The Development of Jordan*, p. 62. '. . . the expansion that occurred from 1952 to 1955 was not accompanied by any degree of inflationary pressure. This is hardly surprising in view of the lack of employment opportunities in relation to the size of the labour force at the beginning of the period, and the amount of foreign aid and loans which contributed to the relatively free availability of foreign exchange with which to pay for imports. In fact, with the government spending less than its revenue,* and given the limited degree to which the banks financed new enterprises, *it is not* possible for aggregate demand to exceed supplies.'

* At present there are no domestic sources of deficit finance, so that the government can spend more than revenue only to the extent of its accumulated cash balances.

therefore, is a political one on which no objective advice is possible. The further objective of balanced land use, which is achieved partly through the creation of overhead social capital, introduces into the concept a further degree of vagueness and necessarily increases the arbitrariness of the programme. It is possible that, in the short run at any rate, full employment might conflict with the objective of the fastest possible increase in national income. Similarly, the objective of securing a certain minimum of soil conservation may retard the growth of income and employment by restricting land use in the initial phase and by requiring more long-term investments than might otherwise seem to be needed. In the long run, however, there is little doubt that all these objectives converge towards the same result – a higher and rising standard of living.

It is difficult to evolve well-balanced development plans or carry them out smoothly in conditions such as obtain in this region. Resistance to change, the incentive to bring about change, the possible speed of change – all these will vary between different sectors of the economy. It is, therefore, essential that suitable sector programmes should be elaborated, as part of the overall development programme, whose objectives will be valuable in themselves *but whose main justification may well be the indirect effect which they have on other sectors, and the income and employment which they provide.*

It is clear that the background to the problems of this region, and indeed the nature of the problems themselves, differ markedly from those found in more fully developed countries.

Great care will thus have to be taken not to apply notions which have evolved on the basis of the analysis of fully developed industrial countries with a wide variety of industries and the possibility of switching resources from one productive activity to another fairly rapidly, without close examination to determine whether they can be expected to be relevant in the conditions of this region.

Thus measures, such as not very productive public works, which might be inadvisable, because they might interfere with maximum expansion, in countries with more integrated social systems and highly developed systems of taxation which enable the redistribution of increases in output (e.g. public works of a less productive character), would perhaps be preferable to more direct attacks on the problem, as for instance through drastic direct land reform. This conclusion will be seen to have considerable importance in relation to forestry, road-building, and so on.

Nor is it likely that the problem of the relative poverty of the region will be dealt with solely by unilateral grants from foreign countries. This relative poverty might make appropriate policies, such as industrial protection or export taxes, which in other circumstances would not be advisable, in order to safeguard the interests of the region even at the cost of diminishing income in more fortunately situated territories. These are complicated matters to which little work has as yet been devoted in any country. It is not surprising, therefore, that they have not always been adequately treated in respect to problems in the poorer areas of the world.

The Need for an Initial Stimulus in the Long-term Development Programme

Before the likely shapes of development programmes are discussed, a preliminary warning is essential: the timing and extent of any development programme must be fluid. Two opposite dangers are present: on the one hand, expansion, unless carefully controlled, may get out of hand; on the other hand, caution might lead to stagnation or even deflation. Both these dangers must be safeguarded against and policies must change to meet changing requirements of the moment. It is quite clear from the analysis of the position in most Mediterranean areas that at this juncture it is the danger of overcaution which is the more acute. A new, major, and vigorous programme of development is necessary to achieve a decisive acceleration of growth. Experience shows that a series of efforts in various sectors without proper co-ordination, and without due regard to their indirect effects, is not enough. The incomes generated may (particularly if they accrue largely to upper-income groups) be dissipated in imports or in a building boom. What is required is an overall plan whose constituent elements are to be determined specifically for each country, which will in the initial stages prove an impetus to balanced growth, partly through long-term investment and partly through stimulus to productive investment in agriculture and industry. The public works programmes which lead to the creation of social overhead capital in those countries are necessary to bridge gaps due to the immobility and lack of adaptability of labour. They can also prevent a further worsening of the distribution of income through increased unemployment due to mechanization. At the same time, they can generate an increase in demand which local production would find it easier to

meet than if the expansion were directly mainly to higher incomes. Only in this way can the bottlenecks which threaten to frustrate any less comprehensive plan be overcome.

The need for such programmes is particularly acute in rural areas, where a flexible programme is required which will still permit the seasonal peak demand for agricultural labour to be met but which will improve the conditions of the labourers. The programmes should be devised to contribute to a change in the systems of farming which will alleviate the violence of fluctuations in labour requirements.

Given the shortage of skill, these programmes become most effective when they act as training grounds for development. Beyond the training 'on the job' which is involved, the programme would need to be complemented by detailed vocational training programmes.

The need for an increase in domestic demand, with slack in the economy in terms of capacity already installed, as well as the possibility of increasing the present level of directly productive investments, has often been neglected in the past. It was not realized that increases in the *wage bill*, initially in money terms but later matched by increases in supplies, were essential for development – even though it would be essential to keep any increase in *wage rates* to a minimum and concentrate on increasing employment. The tendency to adopt prematurely labour-saving techniques copied from the more developed countries must be firmly resisted. The social cost of displacing labour and leaving it unemployed or spending scarce foreign-exchange resources on imported machinery is exceedingly high: the unemployed or underemployed have to be maintained. Only under special conditions, when technical considerations are very strongly in favour of modern machines (e.g. when hand-labour cannot perform the task at all, as in very deep ploughing), should this be contemplated; or if encouragement is to be given, on a small scale, to familiarization with new techniques.

An increase in the aggregate income received may well be a condition of further investment, in that commitment would be undertaken only if there were a hope that there would be a demand for the products of the industry established. Thus a simultaneous establishment of industries, the use of foreign capital to enable a massive attack on a number of fronts at once, productivity and incomes simultaneously, can establish the condition of self-sustaining cumulative increase in productive investment.

Finally, an increase in wage rates (and the expansion of demand

associated with it) due to a relative shortage of manpower might be required to induce a change in productive methods, by providing incentives to employers to improve technology. Care must be taken, however, that the change should not overshoot the mark and cause more unemployment.

The Creative Imbalance

It may well be asked what are the aims of a policy of enlarged public works, especially in rural areas. The argument that what underdeveloped areas need is balanced development has been put forward by a number of eminent economists and has received growing assent. It might be argued, in this particular case, that the policy of rural public works would upset balanced development as it creates a partial new level of incomes not corresponding to the actual productivity. Instead of balanced growth, imbalance would thus have been created.

There is some logic in the criticism, and it might indeed be more satisfactory if a smooth increase in rural and urban incomes could be obtained, no more than proportional to the steady increase in production.

But in order to obtain such a smooth development, it is necessary to have a broad stratum of entrepreneurs waiting to make use of the slightest opportunity, whose energy and enterprise can be unleashed as soon as finance and markets are provided. The finance would be supplied either through foreign help or by mobilizing internal resources. The markets would be provided by the simultaneous establishment of a number of new firms which would lift each other's demands to a new high level. Or, if such pervasive entrepreneurial ability is not available, the State could undertake all investment directly. If it did, then again balanced growth could be achieved.

But in many countries of the Mediterranean, there is no reservoir of entreprenurial and technical skills which can be tapped merely by supplying finance and markets. In these circumstances, an initial State investment programme may do little to stimulate a response in terms of productive investment, and its effects on income may then result in increased imports only, and thus be dissipated in the first round; and if imports are controlled, they would give rise to speculative upward pressure on prices. On the other hand, the State would not take sole responsibility for all expansion of productive investment.

What is needed, therefore, is a stimulus which itself strengthens the incentives to productive change, and at the same time provides markets for the resulting increased productive capacity. This can be accomplished by the creation of incomes, which is not necessarily synonymous with the provision of employment. The expansion of employment is a major element in the programme, however, in so far as it is essential to the creation of demand. Thus a rather broad sector must be chosen as a spearhead of change, because the process of adaptation of the other sectors will take time, and unless the spearhead is large enough and sensitive enough to sustain the expansion during this transition period, the relative sluggishness of the rest of the economy might not be overcome. On the other hand, great care must be exercised so that the increase in incomes does not get too much out of line with the increase in productive capacity, for otherwise the process might be stifled by a mere cumulative increase in prices.

If both dangers can be avoided, and this should not prove difficult, the new direct stimulus to private and public investment in the framework of a plan should be able to create in the end a new balance which will arise, corresponding to a higher level of demand and productivity. In the recent past, the development of automobiles in the more advanced countries opened a new era of suburban living and stimulated road- and house-building and the development of innumerable consumer durables. In the more distant past, the application of electricity, with its vast effect on the location of industry, furnishes a good example of how such creative imbalance works without conscious planning. Such automatic growth cannot be expected in many of the underdeveloped areas.

Thus, in the circumstances of the Mediterranean region, a conscious effort of creating imbalance and then stimulating the response towards the establishment of a new balance on a higher level is needed. As an example, rural public works programmes in Iraq could be cited. These are aimed at increasing the peasants' income and thus inducing a reorganization of agricultural production. Gradually, industrial growth would absorb the people who might be set free, though the intensification of agriculture should also increase agricultural employment at a higher level of productivity.

If, however, an impulse is given, immediate action must follow in two directions. In the first place, the agricultural bottleneck must be broken. Secondly, steps must be taken to secure that an appreciable

part of the increase in incomes becomes available for a further and cumulative increase in productive investment.

The Role of the State

In addition to the need for a more widely diffused entrepreneurial spirit, which through creative competition induces changes and growth, and which merely needs overall direction and possibly selective stimulus through discrimination in tax policy and other measures, the role of the State as a direct initiator of expansion will necessarily be important. In many cases stimulation is needed, and in some cases financing, of enterprises which will contribute to social and economic progress but which may not offer attractive returns to the private entrepreneur. These include enterprises of general social significance (infrastructure), such as streets, roads, power, water supplies, and the like, and other enterprises which may require long periods of time to become directly profitable. In other cases, no entrepreneurs will be available to make use even of very attractive possibilities. Indeed, the missions of the International Bank to many of these countries pointed out that this role must increase.[7]

In addition to providing economic initiative and undertaking actual improvements in infrastructure and production capacity, governments have the responsibility for analyzing the main trends of the economy of their respective countries and providing policy guidance. This may be done in many ways according to the prevailing political outlook. In all cases, however, there is need for a careful analysis of existing economic resources, the likely effect of current economic trends, and the probable effects of alternative policies on future development, both short-term and long-term.

There is considerable room in most cases for improving the planning agencies of governments, particularly as regards techniques of economic forecasting, in translating general policy objectives into effective fiscal and legal measures, and in actual implementation through construction works, provision of improved educational and training services, better communications, improved marketing facilities, and other practical steps to promote development. Administrative arrangements or provisions are needed which provide facilities for consideration of plans and programmes participated in by all those who will have the responsibility for carrying them out, so that

[7] See, for example, *Report on the Economic Development of Syria*, p. 23.

the plans become real, agreed, operating programmes, and not merely theoretical ideas. Also, the overall balance needs to be insured, by comparing the total costs involved, in money and men, with the resources actually likely to be available.

Adequate administrative and technical manpower will be one of the grave problems. Consequently, a further intensification of the training of technical and also administrative manpower is urgently needed. Educational reform and the broadening of training schemes at home and abroad, must therefore, be given high priority. Regional co-operation in this effort yields substantial results, as the supply of specialists in each of the constituent units is not likely to be sufficient to meet demand for their services.

Mobilizing Internal Resources

In the early stages, additional investment should be financed by directing to productive uses a larger share of government budgets and private savings, and such foreign contributions or loans as can be obtained on reasonable terms. In addition, funds available to the government can be usefully increased as rapidly as new direct taxes on upper-income groups can be formulated, agreed upon, and put into effective practice. As expansion gathers momentum, determined steps should be taken to ensure that an appreciable part of the increase in incomes should become available for a further and cumulative increase in productive investment. To the extent that luxury consumption goods make up a substantial portion of imports, part of that buying power may be redirected to investment, if appropriate controls can be introduced and made effective. Finally, in countries where existing agricultural and industrial capacity is not fully utilized, a limited amount of expansion of credit may be undertaken safely to the extent that it can be offset by prompt increases in production from these sectors.

The Encouragement of Savings and the Need for Banking Reforms

The provision of savings media through government bonds and banks, the development of capital markets with the help of central banks, and the development and use of fire and life insurance, crop insurance and other individual savings institutions, as and when appropriate, should be promoted. Holders of government bonds

might be offered the option of exchanging them into shares in industry.

To achieve maximum progress under present circumstances, it is evident that alternative ways of mobilizing savings must be explored. Several of these are open to governments.

One of them might be the reorganization of central banks, which would permit a somewhat freer use of central-bank credit for development purposes. This again can be done directly. The Australian Commonwealth Bank not merely has a trading department but also attracts savings through a savings bank department. It promotes industrial and agricultural growth by medium-term credit advanced through specialized departments. Alternatively, specialized banks or development companies can be formed to which the central bank advances credit. This is generally felt to be a preferable policy.

The total reliance on monetary control, convenient as it is, is hardly compatible with a purposive stimulation of productive investment. Unless strengthened by direct controls over foreign trade and investment, the necessary assurance against speculative movements could not be attained. Similarly, control over capital movements is essential if the expansion is to be sustained by preventing the flight of capital.

Should this be done, it might prove advisable to come to stand-by credit arrangements either with international institutions, or national governmental agencies. These precautions are needed not merely because of unforeseeable national catastrophes to which the region is subject but also because merchant speculation must be squashed before it can do any mischief. No country in this region is sufficiently rich to be able to sterilize part of its own resources in the shape of foreign-exchange reserves.

The Accumulation of Commodity Reserves

The obstacles which intensive commodity speculation or years of crop failure may place on development could be offset to some extent by the creation of commodity reserves. Admittedly, storage costs will be high but this might be considered fairly cheap insurance. Moreover, in the existing international economic situation it may well be possible to obtain stocks of a number of the commodities as part of the foreign-aid contribution of other countries to the development of an important area.

Tax Reform

Governments should overhaul their public-finance systems, with a view to securing a portion of the funds for investment from tax revenue, and generally to creating a system appropriate to a developing economy. Such an overhaul is in any case desirable on equity grounds, and to ensure regular and effective tax-collection. Steps should also be taken to safeguard the foreign exchange required for development, through appropriate tariff and exchange policies.

Indirect taxes. The present regressive impact of indirect taxes in some countries hinders development. Taxes on necessities absorb incomes which would otherwise be spent on home products, and the inadequacy of taxation on luxury goods encourages the consumption of imported goods. Then imports in turn represent a drain on the countries' foreign-exchange reserves. It could well be argued that the deflation of high incomes through very high excise taxes on luxury goods would be one effective method of diminishing income inequality, and would be a good way of obtaining funds for high-priority purposes.

Direct taxation and investment. The risk of acute bottlenecks impeding expansion would be much reduced if the increase in demand could be limited to those who are additionally employed. This is far from easy. A large part of the increase in incomes will eventually accrue to merchants and others who seem largely to escape taxation. Moreover, the consumption of rural families who lose their surplus members is not likely to remain at the same *per capita* level. Thus a double pressure on supplies might arise.

Given, however, the extreme poverty of rural areas, it is difficult to see how a system of taxation could be devised which would recoup for the State part of the increase in rural incomes, and would prevent an increase in urban wage rates, without creating very severe political strains. So long as income distribution remains very unequal, and luxury consumption continues unchecked, attempts to siphon off a part of the increase in rural incomes can hardly be contemplated. Thus the first step must be a progressive direct tax to limit, at any rate, the increase in income of high-income groups.

Increased taxation on higher incomes, moreover, would not have even that adverse effect on the supply of productive savings as in some

developed areas, since it has been seen that the concentration of incomes in a few hands has led to hoarding and increased building, and not to productive investment. In many cases, inequality of distribution of wealth has not meant saving but consumption, and a flight of capital. Concentration of ownership has not meant progress but complacency. The fact that the income of landowners is not usually saved would enable a reform of land tenure without a deleterious impact on production. But land reform without taxation reform will not increase the capacity to invest. In addition, if a greater measure of equality were achieved through land reform and taxation, the balance of payments would be relieved of a considerable burden, since the consumption demands of the poorer sectors can more easily be met from domestic sources.

Foreign private capital. The amount of foreign private capital attracted into industries, other than extractive industries, even with considerable tax and other financial concessions, has been small and seems likely to increase only as economic development gets well under way and where political conditions are favourable. As the International Bank Mission to Jordan remarked, overgenerosity is not advisable, and in many cases it might not be needed.[8] Unless admitted under appropriate conditions, it might threaten to perpetuate the present unsatisfactory state of income distribution.

Foreign Aid

Even if internal and external reserves are fully mobilized, the hindrances and bottlenecks in the way of development will probably limit an accelerating and self-sustaining economic growth unless very drastic action is taken to prevent a full impact of the increase in incomes on consumption in the rural and already employed urban sector.

In many countries, therefore, a full development would imply considerable austerity, and such austerity would imply pervasive control. Thus unless foreign aid is forthcoming in many areas a choice will arise between painful control measures or a much slower rate of growth. Both are exceedingly dangerous. Even if foreign aid is forthcoming, however, changes would still be needed to ensure that funds are not dissipated through being used for projects and imports which

[8] *The Economic Development of Jordan* (Baltimore, 1957).

are not conducive to sparking off a cumulative growth. But it appears that foreign aid can enable growth to proceed without the rather drastic social and economic changes which would be required to mobilize a sufficient volume of resources for development purposes entirely from home sources. As we have seen, changes will then be a result of the free play of incentives, and not the consequence of force. The vital importance of this difference, given the political atmosphere in the region, must be stressed.

Some relief from the potential bottleneck of skilled manpower might be obtained by the use of technicians from abroad on the basis of short-term private contracts, and/or through international technical-assistance programmes. Technical-assistance fellowships in more developed countries would also be of great help.

The example of Iraq, which has assigned special tasks to co-operatives created for the purpose, might well be followed, as it enables the employment of foreigners in an executive capacity without violating civil-service rules.

At present, proliferation of development agencies in some countries is hindering the most effective application of the technical and administrative skills supplied. The system of separate arrangements with international organizations and foreign countries has at times led to overlapping and caused severe difficulties. Firm co-ordination of technical assistance is essential.

Increasing Productive Capacity: Agriculture and Industry

Agriculture

Land reform and agricultural productivity. Co-operation might – though it seems that often it does not – resolve the conflict between small-holdings and the requirements of large-scale enterprise. Only in Israel, Yugoslavia, Greece, and Italy, did co-operative farming ventures make any headway. And even in these countries, the impact of co-operation has not been sufficiently decisive to cause a rationalization of production and a full utilization of the advantages of large-scale enterprise. The co-operative farms themselves are in many cases in need of drastic reform. Agricultural co-operation in marketing, in credit, and in large-machine ownership and operation has made progress in many countries, especially where the social spirit of co-operation is strong.

An alternative would be the organization of large-scale operations in State-sponsored agricultural settlements. This was in principle accepted as the basis of policy in Iraq, and in the 'integrated' reclamation schemes in Italy. The settlements, although not as successful as was hoped, have still brought about major developments.

The importance of a proper supervision of State settlements has been increasingly recognized. In the latest report of the IBRD on Jordan it is suggested:[9]

> 'State Domain for agricultural usage should, in the view of the mission, normally be leased in family holdings on terms giving permanent security of tenure, provided that the tenant observes the good husbandry clauses in the lease. In some districts these clauses would require the planting and maintenance of a certain number of specified fruit trees; in irrigated areas they might make provision for rotation; in all cases they would refer to general standards of cultivation.'

Similarly, when discussing the terms of leases for settlement on State lands in newly irrigated areas in Iraq, both the IBRD and Lord Salter stressed that precautions should be taken (through the reservation of ultimate State rights) to prevent a waste of the inherent fertility of the soil.

A direct solution of the problems of land tenure through various types of land-reform measures might not be fully successful in increasing production without farm-size adjustments and advisory and credit services. In most cases, land redistribution would not actually depress production, because the existence of very large holdings has not usually fostered a progressive agricultural practice. Thus land reform need not depress either productivity or the savings potential of the country. Indeed, from a sheer economic point of view, a distribution of large estates might well prove favourable: consumption would be shifted from imported luxury products towards low-priced food and manufactures which might well be produced domestically, and increased saving through direct family investments in the farm enterprise would be encouraged. Thus the relationship of national income to imports might be improved, and national income might be increased as a result of the increased demand for domestic products

[9] *The Economic Development of Jordan*, op. cit., p. 129.

and the enlarged agricultural productive capacity. If, as is the case in, for instance, Syria, Egypt, and Israel, excess productive capacity exists, the gain might be very substantial indeed.

Generally speaking, however, land reform will not of itself solve the problem of low productivity, and it will not obviate the need for larger capital investment and improved agricultural methods, though it should encourage efforts toward increased output and more intensive farming. To be really effective it must be accompanied by tax measures to channel part of the increased income of the recipients of land grants, if any (beyond a contribution to the compensation paid to the former landlords), to the Treasury.[10]

Productivity must also be raised in the large private estates which remain outside the reach of land reform, and so must the productivity of small-holders. Rural public works and the creation of employment outside agriculture would create a situation in which the status and outlook of the landless labourer is radically changed. The large landowner is induced to apply better productive techniques to improve his own position, and the small land-holder finds an incentive in the larger market at his doorstep. Mechanization of large holdings, without a rise in the status of landless labourers, would (as has been the case in the recent past – notably in certain cotton-growing regions) increase productivity only at the cost of a deterioration in the distribution of income.

Lack of capital, lack of incentive, lack of knowledge, under-employment, and poor land-use have to be blamed for the low productivity of the agricultural sector. Reforestation, together with schemes for woods, water conservation, irrigation and drainage, and indeed industrialization, has an important role to play in the rehabilitation and invigoration of agriculture.

Rehabilitating mountain areas. We have already seen that the mountain areas in these countries are in a worse situation than other areas. And it is quite likely that future developments in agriculture will tend to exaggerate this discrepancy, because some of this land will remain sub-marginal. Therefore, special steps to deal with the mountain areas must be taken.

In many cases, it would be more economical for nations to encourage people to leave the mountains – even giving them a compensation

[10] This is the agrarian counterpart of measures needed to keep within bounds the incomes of those already employed in other sectors.

– than to go on providing the scattered population with costly services (roads, schools, police, electricity, etc.).

In other cases, this will prove impossible. Suggestions of measures that might improve conditions include forestry, fruit production, roads, hydro-electric schemes coupled with light industry, and tourism. Of these, forestry is perhaps the most promising, especially where the humidity is higher and there is some good farm land, and where the relative importance of forestry, agriculture, and livestock may shift. It could, of course, be coupled with light complementary industries: sawmills, distilleries, charcoal-burning, toy-making, and so on.

Industrialization and Terms of Trade

Rural overpopulation of the magnitude existing in some parts of the area can in most cases be tackled only by a substantial programme of industrialization. This is true even for the Northern Mediterranean countries which have already passed the early stages of development.

This conclusion is much strengthened by the consideration of the trend in foreign trade. The growth of competing production threatens the most valuable tree crops of the region. Changes in taste (as in the case of certain nuts, dried fruit, raisins, dates, tobacco, and olive oil) as well as technical progress (as in the case of cork, resin, and tanning material) have severely impaired the value of the most privileged produce of the Mediterranean, which enabled relatively satisfactory foreign-trade incomes to be earned in the past. There has been no adequate improvement in comparative advantages in the other agricultural products which the region can supply, with the exception of fruit, cotton, and groundnuts in some areas. Cereals, the staple products of the area, show a declining trend. Measures can be taken to offset some of these difficulties, such as improving quality standards and marketing arrangements, and shifting production to products in better demand such as fruits and vegetables, wool, and so on. Unless such measures are effective, the terms of trade of most of the countries of the region must be expected to decline.

In these circumstances, efforts to secure sufficient foreign exchange from increased exports, to finance an increased quantum of imports which would be required by the increase in the national income, might have extremely unfavourable consequences. No doubt, the first response must be an intensification of production and an increase

in productivity in agriculture through a shift towards products whose consumption increases with increasing income. The scope for such improvement is very great.

Some mitigation of loss might be achieved by long-term contracts with consuming countries, and agreements (especially for crops with a very long gestation period, e.g. fruit trees) with other exporters. Nevertheless, import substitution and especially industrial development substitution might be, in the long run, far more beneficial to the standard of life in many of the countries of the region, as its terms of trade would then not come under pressure. To this avoidance of loss must be added, moreover, the gains from employment: the under-employment and unemployment in these countries is to a large extent responsible for the low productivity per head. Increasing employment will, therefore, yield a net addition to output, since agricultural production will not decrease, and might even increase, as men are moved out of agriculture.

Systematic measures – fiscal and other – should be taken to limit the income increases of those already employed, beyond the level at which wage increases increase productivity. Among the non-fiscal measures most needed to limit increases in wages of the employed are extensive education and training programmes for those who are not yet in employment, which are most important to assure a steady supply of labour to industry and avoid acute shortages.

Finally, the productivity of those who are given employment will increase as the scope of industries broadens, the scale of production widens, and those basic social investments, which are the essential conditions of modern production, become available. The extent of this saving in costs might be dramatic, as was demonstrated in the case of Japan or India. The scope for such saving might be increased if schemes intensifying trade within the area were elaborated. These might make possible a larger scale of production. No general plan has yet been evolved. The implementation of the tentative agreement to explore the possibility of a free-trade area or common market between the Baghdad pact countries is made difficult by unpropitious geography. Especially in education, research, and pilot-development schemes, as well as in specific industrial combinations (e.g. the development of sulphur and sulphate of nitrogen in Iraq and that of superphosphate in Jordan), some considerable gains through regional efforts are possible.

In many of the countries, however, such a programme cannot be

immediately or expeditiously put into operation. The vicious circle of rural overpopulation, low productivity, and continued deterioration of the soil, must readily be broken in the near future by providing opportunities for employment in rural areas. Agriculture as it is now organized can obviously not promise such increase in employment, though after reorganization, animal husbandry, vegetable and fruit production might readily do so.

In some countries, urbanization and industrialization might well have to be kept within bounds, as a depletion of the rural population and the decline in the intensiveness of agriculture might be detrimental to the best utilization of resources in the longer run. This certainly is the case in the foreseeable future in Iraq. In these cases, a combination of new rural employment and increased imports might well be the best means of alleviating poverty without causing a decline in the rural population.

The foremost objective of development planning must be to secure as great an increase in agricultural production as possible. But, within the broader pattern of rural development, a forest programme whose indirect benefits to agriculture would be immense and which would have direct advantages, would, if conceived as a programme relieving rural underemployment and unemployment, have a considerable part to play. To that problem we shall now turn.

The Role of Forestry

Forestry as a Public Works Programme

The need for a broad system of buffer programmes in rural areas, in the form of flexible public works programmes, has been demonstrated. The restoration of the forest cover, an intensified forestry programme in the broad setting of a balanced plan for technical education and economic advance, meets a number of the requirements of such a buffer programme in that it can provide employment and income where and when they are most needed. In addition, forestry confers important indirect benefits, since it has important roles in improving the productive capacity of the soil, and in promoting a more balanced land use. In this way, it can make further important contributions to rural incomes. This has been fully recognized in the Vanoni plan for Italy, where forest development plays the part of 'regulator', calculated to diminish the discontinuity in demand

which would occur in the course of the execution of the programme. The schemes for forestry development are selected for maximum social benefit in protection against wind (in the coastal region), erosion, and torrents.

Forestry, conceived as a public works programme, has several important advantages. Firstly, it is flexible in its employment requirements over a period of years. While forestry without heavy equipment can provide as much as 80 per cent. of the total outlay in wages, mechanization can reduce this to 35 per cent. Only a few operations by deep ploughing cannot be done without heavy equipment. Thus forestry might start by employing unskilled labour,[11] and later reduce its manpower requirements as other employment opportunities open and wages rise. Finally, it shares with roads and land-improvement works the advantages of geographic flexibility. Forestry work can, in most countries, be undertaken over widespread areas – irrigation or rainfed – and thus distribute purchasing power widely. Marginal forest areas are only too often in the poorer districts, so that employment and incomes created would relieve distress where such relief is most needed.

The provision of employment through forestry may thus be one of the means of checking the drift to the cities which at present is far in excess of the absorptive capacity of industry.

Secondly, the labour requirements of forestry over the course of a year can be varied in such a way as to offset seasonal variations in agricultural labour requirements. Roughly 80 per cent. of the work that has to be done falls between October and the end of March, when agricultural labour requirements are lowest.

It is not difficult to explain the failure to utilize what appears to be an exceptionally attractive weapon in economic development. The acute scarcity of capital obviously contributed to this failure, not because it has forced concentration on quick-yielding projects but because it has been devoted to other long-term investment.

Yet a forestry programme conceived in the right setting and well executed would have much to commend it. There is, first of all, the fact that it could be carried out mainly by manpower at present unemployed and underemployed. It would thus not involve a foregoing of any current alternative use of the same resources. It would be a net addition to economic activity and, over the course of years,

[11] Much of the initial work of terracing is manual, while in later stages the maintenance work, which cannot be done by machines, increases.

would contribute directly to increased national income. And it can give employment without much previous training and education. In fact, it should be able to encourage the acquisition of imitative skills, and this may make individuals more receptive to new ideas.

More attention might be given to the idea of establishing communal forests. These have strengthened and stabilized municipal life in some regions of Spain. A similar trend can be observed in other countries.

The Indirect Effects of Forestry Programmes

A large-scale forestry programme can, in addition to its initial impact on employment and redistribution of incomes, be expected to have far-reaching effects, all of which it is difficult to take sufficiently into consideration in taking decisions on the allocation and pattern of development programmes.

Experience[12] suggests, moreover, that there may be a significant connection between forest cover and climate. The restoration of a substantial forest cover, and of windbreaks and plantations, can reasonably be expected to increase the amount of moisture transpired by vegetation, to prevent the overheating from which barren surfaces suffer, and to exert a beneficial influence on the general water level. Once substantial forestation is started, the spread of the desert and desolation, and the cumulation of degradation of the land can be expected to be halted and slowly reversed.

Wood Supplies

Finally, in the long run, the forests will provide timber. Thus, in the first place, the need for fuel can be met and a more economical management of animal manure, now used in most poor areas for this purpose, secured. Secondly, the need for heavy and expensive imports can be met. Around this new source of raw material new industries can be built up, as has already happened in the Western Mediterranean Basin. This more intensive forestry, directly and indirectly, can substantially contribute to a self-sustaining cumulative process of economic and social development.

[12] There are striking data about the Tennessee Valley (US Dept. Agric. No. 774). See, also, Pereira on East Africa (*East Africa Agricultural Journal*, Vol. XX, No. 4). Temperatures in Baghdad seem to have risen as a result of the cutting of palm trees.

Profitability of Forestry

In considering the contributions which forestry can make toward economic and social development, it appears important to remember that the profitability of Mediterranean forestry has frequently been questioned. Indeed, returns from timber grown under Mediterranean conditions are frequently too low to cover the cost of establishing and maintaining forests, especially when due allowance is made for cumulative interest charges of a product with a long growth cycle. The introduction of quick-growing species, combined with the establishment of pulp and board factories using as raw material the kind of wood which Mediterranean forests can produce, is likely to improve that particular aspect to a point where timber-growing may even become attractive for private investment. However, investment in forestry should normally be considered not in terms of private profitability but from the point of view of its contributions to the community as a whole. If allocation of resources for investment in forestry is decided with due consideration of its threefold returns: direct income from wood; indirect benefits by providing indispensable protection to soils and crops against erosion by wind and water; and provision of productive activity for unemployed and underemployed workers, the contribution of forestry towards a self-sustaining cumulative process of economic and social development becomes sufficiently important to warrant a substantial stepping-up of forestry programmes in large portions of the Mediterranean area and especially in its eastern part.

The Role of Forestry in General Economic Development

There are wide variations between the countries of the Mediterranean area. All of the three Southern European peninsulas (Northern Italy cannot economically be said to form an integral part of the Italian peninsula) might be grouped together. So can the Middle Eastern countries stretching from Turkey eastwards and southwards. The southern littoral from Morocco to Egypt can be considered as a third group. None of these groups is homogeneous, and exceptions could be found to any generalization about them. Nevertheless, there are similarities which determine the strategy of the next phase in economic devleopment.

Southern Europe can now be said to have passed its pre-industrialization stage, and will depend for its development mainly on the

absorption of its excess manpower by industry. This is a question primarily of increasing the availability of savings and improving the allocation of investment. The primary investments in education and health are already under way in the area, but the bottleneck to expansion, in the absence of a continuous major inflow of foreign capital and of a major change in structure, is likely to be the low productivity of agriculture, which is closely related to low soil fertility. There is, however, a varying degree of awareness of this problem, and in some parts of the three peninsulas remedial measures have been attempted.

A forestry programme for these countries entails a sacrifice of gains which might be more rapid if investment were concentrated on quick-yielding schemes. This sacrifice, however, is less than that which such a programme would entail in most of the countries in the other two groups (countries like Iraq, with a high oil revenue are an exception to this rule), since the higher rate of capital accumulation makes it possible to envisage development as a longer-term proposition. The fact that the industrial substructure has been created enables these countries to think in terms of schemes which are likely to make for a decreasing pressure of population on land. The intensification of agricultural production will also contribute to this end. Under such conditions, the task of combating deforestation is likely to become easier.

The other parts of the area that are far poorer than the Southern European area have, as we have seen, different reasons for devoting greater attention to forestry. First, the poverty of the soil is such that serious soil-conservation programmes need to be given a most important role in any integrated programme of economic development. Secondly, while there are many competing needs for land and capital in the area, the 'absorptive' capacity of the economies in the area cannot, by and large, be given a boost until some preliminary important investments are made in technical facilities and in overhead capital. Such preliminary investment (which would naturally centre on increasing the water supply, and also enlarging the basis of a transport system), could, if proper policies are pursued, be carried out in a labour-intensive manner. It would then – because increasing the fertility of land is equivalent to extending the area – include attention to forestry, which does not make heavy demands on scarce skills.

These considerations show not only the possibilities of an intensified forestry programme, but also the absolute necessity of co-ordinating it carefully into a simultaneous general development

programme. Out of this context it would not be possible to determine its optimum size relative to the other essential ingredients of economic and social progress. In particular, it must be combined with a programme of intensified agricultural production. Otherwise, the essential food-basis for increased incomes and consumption would not be available, and this failure would cut short any cumulative development. Even foreign aid (and in some countries the availability of oil revenue) could only postpone but not obviate the need to initiate a self-sustaining, indeed self-augmenting, process on which the long-run success of any planning must depend. The share of scarce capital used for forestry would thus have to be balanced with investment needs in agriculture and other fields.

Indeed, in so far as the present trend towards inefficient land use is the consequence of the isolation and self-sufficiency of communities living in marginal areas, such an agricultural programme is the essential complement to the forestry programme itself. Without it, the renewed encroachment of inefficient and devastating animal husbandry, and the premature use of the timber, will be inevitable. If alternatives are not provided, the country reverts to the original position, and the vicious circle resumes.

The Mediterranean

This chapter is an abridgement of the general economic section of the Interim Report on Mediterranean Development undertaken in 1957 at the initiative of Professor Myrdal and Mr B. R. Sen, Director-General of FAO, by a joint team of the United Nations and FAO, of which I was the head and Mr H. Ergas, now a director of FAO, the most outstanding member. Dr Glesinger, now an Assistant Director-General of FAO, was in administrative charge. I benefited by the fertility and originality of both and am grateful for the permission to reproduce the salient passages of our report. Mr Ergas assumed responsibility for producing the Final Report published in 1959.

What started out as an enquiry into the possibilities of afforestation as a means of economic policy for development broadened inevitably into a general regional enquiry. Few, if any, of the Mediterranean countries outside Europe can be said to be safely on the road of cumulative expansion. The regional approach seems nevertheless

amply justified and the decision of the Executive Secretary of the UN Economic Commission for Africa to organize regional as against country studies on industrial development is to be warmly welcomed.

It is unfortunate that regional monetary and commercial agreements for a long time incurred the hostility not merely of the International Monetary Fund and the General Agreement on Tariffs and Trade, but also of the US Government. The organization of a Conference on Trade and Development with a permanent secretariat solidified and institutionalized the demands of underdeveloped countries for a greater freedom of action and for a less rigid application of principles, derived from a sterile and static theory of international trade. It is to be hoped that regional planning and co-operation will receive a new impulse from this development. Unfortunately at the moment the weight of the demands seems to be towards price-stabilization, an ambition which (Cf. above postscript to Section Four) is not unlikely to be doomed to frustration, and, in any case, does not seem to be the best way of promoting greater international equality.

CHAPTER THIRTEEN

Tropical African Problems

STIMULATING RURAL PROGRESS

The development problems of Tropical Africa are not difficult to state; nor would it be difficult to state realistic targets which would be capable of putting Africa on the way to self-sustained yet considerable progress. The task of reaching these targets would nevertheless be hard, for attempts to change are likely to be impeded not so much by technical problems or even by scarcity of resources as by the somewhat static character of the social system.

A rate of growth of income of 5 per cent. per annum should be the aim. This could bring about in due course, in a dependable manner, an improvement in the standards of living, nutrition, education, and health of the masses, and form the basis of the promotion of social justice and equality, and the achievement of self-sustained growth. All these objectives should be combined with the promotion of dynamic balance of land use without jeopardizing future progress.

Administrative Framework and Planning

To give such objectives a realistic content and to design adequate policies for the basic requirements of development, the establishment of an adequate administrative framework is necessary. Within this, plans for rural progress can be elaborated in detail in the light of overall objectives of economic development. A special effort will have to be made in the establishment of a planning machinery, staffed with adequate personnel and inspired by leaders cognizant of the effort required. Much progress has already been made in this respect, and the need is realized for having a separate body (a department or scretariat) with access to the highest political level of decision-making. This should permit the evolution of balanced development plans in which rural progress receives adequate attention.

Planning for development does not only raise technical issues. It is essentially an educational and political task of persuading the masses of the need for major sacrifice, at least in an intermediate period, and of enlisting their continued enthusiasm and support. The recent history of a number of newly formed African States shows that this task of public information about well-conceived plans is of essential importance in obtaining the active co-operation of the public. The technical planning staff should not only be aware of the methods of planning of the various objectives which can be reached by alternative use of scarce resources but it should also, through close contact with the masses and their day-to-day difficulties in eking a bare subsistence, be in a position to appreciate the response to various policy measures to be used in the implementation of the plans. Furthermore, through their close screening of the pattern of expenditure, both of the wider public and of the government sector, they must be in a position to put forward measures to secure that the benefits of development are equitably shared and that conspicuous consumption is not allowed for some at the expense of others. Great care will have to be taken within the framework of the plan to ensure that any accentuation of inequality which a given set of measures may induce will at least show a good promise of curing itself by speeding growth.

It will be seen that effective planning for African development will benefit greatly by close co-ordination between countries and by the services of international agencies specially created for the purpose of channelling technical assistance and capital aid. This is needed for two reasons. Countries physically close to one another may occupy parts of the same ports or railway systems, be affected by the same pests or diseases, or have other common problems or possibilities, such as labour migration, use of common educational or research facilities, or economic co-operation through trade and commerce. To the extent that such countries maintain contact with their neighbours in developing and carrying out their plans for national development, and develop ways and means by which they can co-operate with one another to their mutual advantage, to that extent their plans will be most effective and productive.

It is essential that provisions should be made in the structure of the national administration which will facilitate close co-operation between the African national planning bodies themselves and between them and the international agencies of technical assistance and capital

aid. The location of the planning and budgeting organs at the highest level should ensure adequate administrative facilities to make this overriding need effective in national decisions. Such arrangements for facilitating the planning process on the national and international level will go a long way towards securing equity and preventing a waste of resources. It is particularly important that such development planning arrangements give full scope to consideration of the rural areas where the role of the administration is bound to increase, and where, because of the weight of past traditions, the possibilities of neglect and inadequate treatment are far greater.

In particular, the structure of the Ministries of Agriculture needs to be further improved and integrated. A planned acceleration of agriculture in the framework of general economic and social development requires that the various services, such as soil conservation, irrigation, animal husbandry, forestry, and general agriculture, should act together on the basis of a coherent long-term plan to which public corporations must also conform.

Some difficult issues arise from the need for an effective supervision of executive action to lessen the risk of abuse. Every attempt should be made to devise a system of judicial or administrative safeguards, especially in rural areas, which, though not as elaborate as in the more developed countries, should still be sufficient to secure equity in individual cases.

Securing Cadres

There are serious difficulties in the way of securing the necessary administrative and executive cadres whose lack undoubtedly presents one of the greatest problems in Africa. This is a two-fold problem: the first and probably the most important is that of training. The current concepts of the educational qualifications required of African administrators need re-examination. Some of these concepts might have been well suited to a framework in which planning for economic development and social welfare were not among the main tasks of the Civil Service. The combination of technical skill, intimate knowledge of the environment, and a close understanding of the desires and capacities of the masses would require for the modern administrator in Africa a specially directed education, different from that suitable in the days when the only two essential qualifications were integrity and general administrative skill. These qualities will obviously con-

tinue to be of major importance but they must be supplemented by more specialized qualifications.

The second problem is that of a positive recruitment policy. This involves, in the first place, a change in the relative status of administrators and technicians. Much scarce technical talent is now being wasted by the tendency for highly skilled technicians to get purely administrative posts which either carry higher emoluments or greater opportunities for promotion. The result is that the execution of policy and the extension of knowledge is greatly hampered.

Even the most determined effort to increase the supply of administrators fit to undertake the job of accelerating economic development will not yield appreciable results for some time to come. The gap will have to filled partly by an intensive scheme of accelerated training such as is being undertaken by the Economic Commission for Latin America which has been so successful and also produced quite a number of civil servants and technicians, professors and political leaders. It would be desirable to establish in the near future an 'Institute for Administration', in close conjunction with ECA and the regional organizations of the specialized agencies, for training in economics and statistics and other subjects strictly relevant for future administrations. This will enable the establishment on an Africa-wide basis of a new approach to education for the highest echelons of the Civil Service, and it would be far preferable, at any rate in this field of administration, to the sending of young Africans to the universities of highly developed industrial countries where training, including post-graduate training, does not cater for African requirements.

A second line of approach would be the organization of technical assistance on a far more massive scale than hitherto. Should this be attempted, it would be equally necessary to organize a training instittrue or courses in which the technical experts receive adequate briefing about the social and political framework in which they are supposed to work. It would be essential for these experts to keep in constant touch with one another and their headquarters to exchange relevant information and to be kept abreast of relevant developments and technical achievements elsewhere. Conversely, the headquarters of the international and bilateral agencies providing technical assistance should be in a position to provide their experts with long-term prospective and guidelines based on a careful appraisal of data and intimate contact with other countries, and designed within a framework

in which the possibilities of greater co-operation among the countries can well be taken into account.

Structure of Ministries of Agriculture

The administrative structure of most African States reflects that of the metropolitan countries, with certain special features due to historic accident. This is often true of the Ministry of Agriculture and the agricultural services. In most cases, for instance, animal husbandry is separated from the general agricultural service, as is forestry. Within the animal-husbandry service, which is so important over a very large part of the continent, the veterinary section has acquired a dominance which is easily understandable in terms of the continuous and successful fight against animal diseases which are ever present and ever threatening everywhere in Africa. The Departments of Irrigation and Water Development are sometimes wholly outside the Ministry of Agriculture, either as independent bodies or divisions of the Ministry of Public Works.

This structure does not correspond to the requirements of a planned acceleration of development, including agricultural development. What is required is a co-ordinated, all-embracing effort demanding an integration of all these services. The establishment of a powerful long-range planning unit in the Ministry is one of the most important requirements. If the Ministry is to make good use of the opportunity offered by the adoption of deliberate planning of economic development, it must possess officials capable of dealing with the general planning staff. Only in this way can the pressing needs of rural development be made to prevail. The specialized services must be developed and co-ordinated. The forest service can contribute as much to animal husbandry in the drier north of Western Africa, where it can provide fodder-trees, as it can to soil conservation and tree cash-crop production in the moisture areas. Animal-husbandry experts will have to be aware of the need to introduce mixed farming and the use of animals for draught on as wide a scale as possible, and bring about a balance between conservation of the range and arable land, on the one hand, and the needs of cattle-raising, on the other. They must regard their activity as a part of the national effort to raise income. They must view with much greater urgency than hitherto a change towards breeds which are tolerant of the tsetse, show quick development capacity, and are economical

in meeting nutritional needs. Soil-conservation and plant-production services need to be expanded. The Departments of Irrigation and Water Development need to be incorporated with the Ministry of Agriculture. Liaison will have to be maintained with the Ministry of Education and Health on the campaign for rural progress, and with the Ministry of Labour on manpower requirements in agricultural industries and ancillary trades.

All this will require a thorough reorientation of the structure of administrations within Ministries of Agriculture to emphasize the essential unity of the task facing them and give due regard to the need for balanced planning and economic considerations which hitherto perhaps could not receive sufficient attention. The public corporations concerned with agricultural development must also conform to the long-term plan of development.

Securing Information

Underlying the need for planning there is the fundamental need for obtaining the basic knowledge required for the purpose. Even the most experienced and best-trained administrators are unable to provide a sensible scale of priorities among government projects or to devise effective policies *in abstracto*. Even elementary statistics are often lacking. Two types of action are required. In the first place, the collection and compilation of statistics must be improved. To that effect, the training of statisticians must be accelerated. Secondly, surveys will have to be undertaken, not in isolation in specific fields as in the past but on as broad a basis as possible, in order to establish the pattern of resource use which is most conducive to the fulfilment of the objectives of the plans, and which is in keeping with economic and social conditions. In all this, both the quantitative and the qualitative aspects are likely to give difficulties. But, if it is appreciated that the need for clear-cut economic policies is urgent, and that unless some essential research work is done such policies will be impossible to devise, it will be realized that, rather than aiming at precise blueprints (based on expensive and time-consuming experimentation), what is wanted is a first approximation designed to introduce at least some rationality in current decisions. Since no plan can be taken as a final plan, it is obvious that with time more precision can be added as the availability of technical staff, and thus of knowledge, permits.

Education for Rural Progress

Agricultural advance is not possible without infusing into the younger generation a positive attitude to rural life. This is essentially a problem of intensive education, which enables the individual to work effectively in improving the rural environment and productivity. Education must no longer be regarded mainly as the one way to escape from that environment. A new attitude will be needed. This has been recognized by a number of reports and conferences – the last of which was organized by ECA and UNESCO.[1]

The programme of education for rural, and therefore general, progress must be viewed in the context of the resources which are available for the economic development programmes as a whole. Most of the African countries have been increasing the proportion of their public expenditure devoted to education, and are planning to increase them further. This is a most encouraging development; and, provided that the resources available for development in other sectors are not jeopardized, and provided the country is energized to new and more effective effort, it is one of the key conditions for progress of the economy of Tropical Africa. Specialized agricultural training must duly be fitted into this expanding programme.

Education must provide for far greater numbers than in the past in order not to accentuate still further the lack of integration of African society. Otherwise, a large portion of the new generation of Africans would be condemned to underemployment and low productivity and the disappointment of their ambitions and of their hopes from their new independence. Their numbers are likely to rise so rapidly that within the short space of a decade, at most, they will form the bulk of the population of Africa.

It would be fatal, on the other hand, to aim at general educational programmes which, though alluring when viewed in isolation, would pre-empt far too large a portion of available resources and thus prevent the expansion of demand for the skills and knowledge which have been provided at such sacrifice. It must not be forgotten that that demand depends on directly productive investment in agriculture, industry, and the infrastructure needed for it. Thus the programme must at one and the same time be largely expanded and fit in with available means. We shall indicate a possible solution of this dilemma.

The development of Europe in the nineteenth century likewise

[1] See 'Outline of a Plan for African Educational Development'.

coincided with an upsurge of population and was due to no small extent to the massive educational effort which was then undertaken. A crucial feature of this effort was the inculcation at all levels of education of the spirit of self-discipline, devotion, and social sensitiveness. Any educational effort in Africa must diffuse this spirit, both to the educators and to the educated. Rural education for rural progress is a keystone of any realistic programme for African prosperity and social contentment.

Elementary Rural Education

The first requirement of an educational programme dedicated to rural progress is a reform of elementary education in the countryside. This must be designed to change the attitude to work in agriculture while widening the scope for talent which now has hardly any opportunity.

Elementary education will have to be designed in the first place to adapt the individual to serve the community to which he belongs. It must, therefore, provide the rudiments of general knowledge, and do this within the framework of African conditions. This will imply a reorganization of teaching material, which in the past has been too often taken over readily from what was primarily suited to European children. It will also require in the rural areas the inculcation of technical knowledge, including education in nutrition. This is possible only if the teacher himself knows about food and nutrition, i.e. if nutrition education and training is included in the teacher training. Nutrition education might be aided by a mass campaign of school meals which might well contribute to the establishment of new food habits and eventually help in creating the basis of a new incentive for general improvement.

The reorganization of elementary education ought to be so conceived as to make the school the centre of rural reorganization, with the teacher, who should also be in charge of, or help in, adult education, assuming a key role in the community. The rural elementary school must be the centre of the rural renascence, the focus of a new conception of 'extension'-education service. As an emergency programme, education should be extended mainly to the twelve-to-sixteen-year-old adolescents who have not had any education at all. This would, as will be evident, help to reduce cost, because the schooling can be coupled with work and agricultural training. Only when there is surplus teaching and school capacity, and general national

income has risen, should a beginning be made to teach younger children. Even then, the training aspects will have to be strictly maintained for the older children, who will stay in the educational process longer than can be contemplated for the present.

The school and the teachers' residence – designed in keeping with other houses – will have to be built mainly by the villagers themselves for themselves, with only minimal help from the government for some materials. To increase the sense of participation, the school must to a large extent be self-supporting. Teaching of such subjects as elementary knowledge about biological facts or soils and elementary technical knowledge of basic facts about food and nutrition and of crop management, which must be essential elements of the curriculum, must be followed by practical work. The schools should therefore have land attached to them on which the children can be educated in more effective methods of production, and at the same time help increase agricultural output.

In so far as resources may not be available for schools in every village, they should be so located as to have maximum impact at lowest costs, i.e. in the larger villages lying between smaller ones first. If all these practices are followed, and if the teachers' salaries, though adequate, are related to national circumstances and supplemented by food and other produce grown on the school farm, the cost of elementary education could be reduced to less than half the conventional estimates, and at the same time made more effective.

While it would be reoriented towards rural progress, elementary education would still enable some of the younger generation to embrace new careers and acquire industrial skills more easily than they can after the present formal type of teaching. The facilities for secondary and higher education must increase considerably if the present disproportion between such education and primary education is to be reduced. The choice of candidates for secondary and higher education on the basis of the closest scrutiny of intelligence should extend far and wide, so that the feeling of national cohesion is strengthened. The need to adapt all post-elementary education also to African conditions, in terms of curricula, expenditure per student, and general approach, is as great as the reform of elementary teaching.

At the same time, intensified programmes for vocational training for specialized skills will have to increase. In the teachers' training colleges, particular attention will have to be paid to agronomic and

nutritional knowledge which will enable the teachers to perform their national service in rural schools, and also prepare them as better citizens and administrators.

It is essential that the various elements of the educational expansion programme be adequately co-ordinated. In elaborating the programme, the Ministry responsible for planning and education should seek advice and co-operate closely with the Ministry of Agriculture and the Ministry of Labour, and where necessary Industry and Health. They would have the help not merely of general educational experts but also of men who can give the programme the practical content it requires, especially for rural areas.

Education for Girls

In most African countries, the education of girls lags far behind that of boys. The reasons for this go deep into social attitudes and beliefs. But it will be impossible for African communities to develop through their own initiative if the women stand aside or are left aside. In almost the whole range of national effort they have an indispensable part to play.

Unfortunately, it is not enough to say that African women must be 'emancipated'. The first effects of giving school education to girls in a society which has not yet generally accepted such a thing may be to make them less accepted and less influential in their own society, and not more. The problem has to be approached with a consciousness of the feelings and attitudes involved. The traditional attitudes must be taken into account and changed sensitively. The effect of formal education, however practical in its outlook, is to upset the established order of society, to disturb old relationships, and to make fresh and often uncomfortable demands upon the men.[2]

There are many different kinds of society in African countries and the position of women is by no means the same in all of them, even if one thinks of tribal society only. Not merely general but particular knowledge of each society is needed before wise plans can be laid for the extension of girls' education. Where traditional beliefs oppose the education of girls it would appear sensible to make the breakthrough by teaching especially those things which appear, even to the most conservative, as within the woman's sphere. This may not be easy to accept but it is better to get girls into school because they will learn

[2] See *United Kingdom Study of Education in East Africa.*

dressmaking and cooking than not to get them to school at all. Once they are in school, things will begin to happen to their minds and to their social attitudes. The teacher then has the opportunity to instil knowledge of a little arithmetic, general science, and hygiene and of basic principles behind these, while girls learn how to cook meals better, how to keep a home clean, and how to care for babies and contribute to agricultural progress (keeping poultry, etc.).

Agricultural Education for Adults

The main emphasis of an educational programme must be concentrated on the adolescents, both for reasons of economy and also because the chances of lasting success are likely to be highest. This will not merely enable the scheme to be almost self-supporting but it will create rapidly new rural cadres for agricultural expansion. Training for adults, especially for young adults, to obtain a cadre of spearhead workers, is the next need. It would be essential to aim at having one spearhead worker (*animateur*) for every twenty family holdings. They could form the nucleus of agricultural advance and demonstrate with the help of the agricultural education organizers the great advantage of new methods of production.

There is a grave shortage of manpower to lead the rural advance. If the education programme is quickly to assume major dimensions there would be considerable advantage in combining the agricultural extension service at village level with education at the adolescent and adult level. It would then become a question of organizational convenience whether the village-level organizer educators should be trained as teachers or the other way round. In view of the fact that even the application of very primitive improvements in production techniques would give fairly considerable results, it could easily be accepted that labour training schemes for extension workers should not demand very high technical qualifications which would delay action which needs to be taken immediately. It is important that the village teachers should play their part in the community and give inspired leadership and create the conditions in which such leadership can be effective.[3]

Adult education to lessen illiteracy should be organized round the practical task of improving welfare in the village, preferably in con-

[3] African governments might well wish to study a successful operation of such a scheme at the Italian 'Ente Maremma'.

junction with community development schemes. Otherwise, interest is likely to peter out quickly. Personal interest in such schemes should be stimulated by giving people who show particular willingness and ability in the execution of public works and in the appreciation of adult education the satisfactory opportunities to rise to better positions (including positions where they will receive payments), provided they are willing to undertake the effort of any further training required.

The whole task of agricultural extension in Africa must obviously be viewed in a different light from that of highly developed areas where the profit motive is of primary importance in the application of better knowledge. In Africa, the results of extension must primarily depend on the quality and persuasiveness of the educational effort.[4] Administrative authority and intense propaganda effort will be needed at first to enable the extension workers and the rural organizers to spread knowledge and introduce new methods of production on a scale large enough to secure the increase in output and to make it possible for self-interest to assert itself and changes in methods to be adopted with a minimum of asisstance. Such propaganda and authority are essential because rural development depends essentially on a set of complex measures which often (e.g. regulation of grazing) go far beyond the reach of individual action.

Creating Teachers and Specialist Cadres

The adoption of this dynamic role of education will require a vast increase in the number of teachers as well as agricultural extension workers, organizers, and spearhead workers in the villages. Normally, one should be accepted in government services or provided with facilities for higher education only after helping for a minimum period in the rural renascence of the country. The need for teachers is immense. The need to get able and enthusiastic people into the profession is overwhelming. Yet salaries must not be too high, as otherwise the burden will be crushing, and the teacher set apart from the village. Thus a new type of incentive is required. Local administrative posts should be made available to teacher-extension workers or monitors who have proved their capacity for leadership in the teaching profession, which is in any case now supplying a large proportion

[4] Examples in Mali, Ivory Coast, and certain parts of Nigeria show that intense education propaganda can be very successful.

of the political leaders of Africa. In fact, teaching should be one of the ways to reach the highest posts in government services.

A crash programme for training might be planned. The teacher village-leaders should be recruited from among people who have received some general elementary education; they should receive intensive basic training for one year at special camp-schools, and then refresher courses every slack season for a number of years.

As specialized teaching becomes available, extension work and elementary teaching might be separated in the higher echelons, but every measure should be taken to ensure that close contact between the two can be maintained.

Higher Education for Agricultural Progress and Research Institutions

Given the scarcity of resources in Africa, great advantage could be obtained by regional co-operation in specialized higher education and especially in research.

The existing research institutions have done considerable and highly useful work in the past, especially as regards export crops. This work should continue and be broadened to include crops which are intended mainly for domestic use. Unfortunately, at present, neither manpower nor means are available even to maintain the existing institutions, let alone broaden their scope. In view of the fact that ecological regions cut across national frontiers, agricultural research undertaken on a regional basis could make for economies of scarce manpower, and at the same time inculcate into experts and administrators a greater sense of the usefulness of an inter-African co-operation. If such research is not rapidly organized, there is the risk that the newly independent countries will be unable to ensure the continuation of the work at the high level previously reached. Moreover, the present situation is likely to lead to an exclusive orientation of research in the existing establishments to the immediate needs of the country in which they are located, and hence the various opportunities for increasing knowledge of better agricultural methods would be lost.

It is, of course, clear that when a country becomes independent, research stations within that country must become responsible to the new government and be administered by that government, unless they are taken over by a group of countries as suggested below. In the

first case, other countries and international organizations can assist by providing technical and economic support on request and in agreement with the new government.

International institutions should be used to the maximum extent possible to organize exchanges of information. A closer analysis of the numerous reports based on research carried out in individual countries by international organizations would allow them to evaluate the experience so obtained and to make it known both to other governments which may have to face similar problems and to the international experts who are assisting them.

Land Tenure and Settlement

Improved production techniques require suitable land-tenure arrangements. These will have to be devised so as to be in harmony with the stage and context of the economic and social development of the territories concerned. Great flexibility will be required. While the progress towards individual land-holdings must be considered as likely to continue, an effort still needs to be made to reconcile it with traditional concepts of land-tenure, whenever these are still likely to play a positive role. Even if the tribal systems are totally surpassed by modern developments, an effort must be made to safeguard future flexibility of policy. An acceleration of the establishment of freeholds would freeze the land-tenure system and prevent possible hopeful lines of economic development on co-operative lines.

The transformation from the traditional tribal or family holding system into co-operatives would seem a promising line of development. These co-operatives could start by providing first only certain common services, leaving the individual traditional holdings in the hands of individuals who would have to conform to general directions given in the plans on the production pattern, the rotation to be used, and the technical means required to improve production. In certain cases, it might be possible to proceed further and transform tribal holdings into well-run full-production co-operatives, run on the same basis as the communally owned plantations.

In areas where individual ownership is not generally established, plantations could play a useful role in increasing output. Individual cultivators are often anxious to leave the tribal system but remain unwilling to undertake risks. They prefer the security to work at a given wage. Well-run and closely supervised plantations under such

conditions would have, then, the advantage of helping transform agriculture into an efficient industry. Where plantations are run by private enterprise, care should be taken to secure, through licensing and tax policy, that production standards and investment are kept at a high level, that wages and working conditions are as favourable as possible to the workers, and, where possible, that they have a positive demonstration effect on peasants in the neighbourhood. They might also be used then to supply the peasants with improved seedlings and seed.

The encouragement of relatively few enterprising farmers needs to be reconciled with the task of promoting the progress of whole groups, enabling them to adopt modern methods by common effort. (Expensive settlement schemes are likely to have only a limited impact and are, hence, not likely to provide the stimulus to growth. Such a stimulus can be given only by a general attack on backwardness at the village level, closely linked with educational progress.) Settlement schemes can play a leading role in this respect, by demonstrating what can and should be done. But in order to give such demonstrative effect its full scope, settlement projects must be planned at modest costs and keep in close reach of potentially similar achievements in the neighbouring areas. In this way, settlements accompanied by the growth of co-operatives and intensive extension and community development schemes can become trail-blazers and pioneering experiments in developing suitable tenure conditions and supporting communal services for agricultural progress.

The Function of Co-operatives

The promotion of co-operatives might be a way to combine ancient traditions and modern productive requirements while preventing social inequality and tension. It must be remembered, however, that co-operatives in Tropical Africa have a long and chequered history. They have often perpetuated, in modern guise, traditional authority, inequality, and abuse. Their success in the future will depend on closer supervision as well as on effective co-ordination with administrative services and with the provision of supplies. At the same time, the rural population must be given an incentive to join in the new efforts. Education, payment in kind, and financial aid might expedite the attraction of the peasants to new co-operative ways of securing production, marketing, and credit facilities. Unemployed or under-

employed manpower could find useful and profitable outlets. A number of difficult problems arise here, partly because of the consumption habits of a large part of the population whose demand for foreign food and non-food products seems to rise steeply with increasing income. Consumption patterns have been changing very quickly in recent times. Thus education and payment in kind might be hoped to establish new incentive patterns. In the meantime, financial aid might expedite the attraction of the peasants to new ways of production.

Broadening the Scope of Development

Investment in a number of countries of Africa has been very high for the stage of development and income they have reached. The factors which have enabled this high rate to be maintained are changing and likely to change further. Private capital is moving out rather than in and this is not likely to change. In any case, a selective policy would be required in encouraging foreign investment, because its contribution, especially through the demonstration of higher technical knowledge and imparting of skills, can be substantial in certain fields, while in others it might lead to unfavourable overall results. Government contribution to African development through multilateral channels should expand fast. But bilateral aid has been high and it would be rash to assume that the outside resources overall will increase substantially. The demand for social services, which has already cut deeply into the government budget, is likely to increase, and as the scope of the public sector increases, administrative and maintenance expenses will loom large.

In addition, there are, in the newly independent States, tendencies to increase expenditure designed mainly to enhance national cohesion. While such expenditure might stimulate progress, indulgence in it would in the end bring severe repercussions. It would postpone the day on which the investment programme results in a really satisfactory cumulative upward movement of income and welfare, which is the basis of national integration.

In the near future, therefore, the population in a number of countries will be confronted with the need for increased contributions or the acceptance of slower progress than in the past, which will seem unsatisfactory. This will represent a new situation, the importance of which must not be overlooked by the governments concerned. Unless

coherent planning enables the government to avoid or mitigate sudden crises, and to prepare the population emotionally for sacrifice, and unless the population can be assured that the sacrifice is not merely necessary but will result in an acceleration of the increase in national income, discontent might arise as a result of the need for sudden severity.

A heavy burden will, therefore, in the first place, have to be borne by the African countries themselves. Even if African countries, as seems likely and certainly is desirable, adopt a strategy of spearhead regional and sector development until their economic progress is based more securely than it is at present, in most countries a large amount of infrastructure investment cannot be avoided. This means that, even in the most favourable circumstances, investment in railways and roads will demand a large fraction of total expenditure. If the feeder roads and rural investment generally is not undertaken on the basis of a communal effort, the strain on total resources will be even greater.

Altogether, it would be wrong to assume that investment of less than 20 per cent. of the national income would be sufficient to maintain the sort of minimum progress of about 5–6 per cent. per annum which seems to be required under the circumstances. A large part of this would have to be concentrated on productive investment in agriculture and industry. It is equally essential that it should be followed up by more intensive utilization, for rural progress, of the unemployed or underemployed. It is, of course, possible to start more slowly on infrastructure and concentrate more rigidly on high-yielding investment but this would inevitably lead to an accentuation of imbalances. If the declared objectives of the African governments are in part to be reached, this will inevitably represent a considerable increase on the call for domestic resources in most countries.

Increasing the Effectiveness of Investment

Only if comprehensive and closely articulated plans exist, into which single projects fit, and which in turn determine the choice and, more especially, the timing of those single projects which make up the total, can really satisfactory progress be expected. Research and investment, both in infrastructure and in productive investment, will contribute the maximum increase of output only if there is co-ordination of investment plans between African States. Should this not

happen, it is likely that each African State will be pushed or will drift towards a policy of increased national self-sufficiency which will hamper long-term growth, since there are few countries for which isolated industrial development on a large scale would be an economic proposition. Thus the elaboration of national plans, and their co-ordination on a regional basis, is essential if the growth of productivity of investment is to be accelerated. Closest national and international planning and co-ordination of single projects will be needed.

Increasing the Domestic Contribution to Investment

There are a number of ways in which tax revenues can be increased to speed up development. The tax systems of the past were built up on a philosophy of the traditional functions of the State which did not comprise a deliberate acceleration of the growth of production and income. There has been a change in this philosophy since the war, and especially since independence. The principles of taxation and public finance will have to be further remodelled to serve the end of development, and more especially to concentrate resources on infrastructure and productive investment, and discourage wasteful use of reserves which might give rise to social dissatisfaction on account of its conspicuously wasteful character.

On the whole, the taxation of non-essentials remains rather light. Direct taxation has existed since the war but its effectiveness is marred by imperfection in collection. The consequence is that the high incomes are not effectively taxed; the low incomes, however, could not be taxed very much. This system limited the contribution of public revenues to development until the producers of privileged commodities were taxed by the policies of marketing boards and export duties.

This is not enough. If the scope for development is to widen, the contribution of investments financed out of savings in the public sector will have to rise. Both direct and indirect taxation will have to be revised and its level increased, and taxation devised to discourage real-estate speculation and, if possible, to promote better land-use and conservation. Taxes on corporations could be increased so long as they do not have an adverse impact on investment. Other means to channel private savings into productive investments should be explored and applied.

Monetary reform can contribute considerably to the increase of

domestic savings and promote their availability for rural progress. The lack of an integrated capital market is a grave handicap to agricultural investment and hinders balanced development.

Industrialization and Trade

If rural development is to take place, industrialization must also be encouraged. At present, this is hindered in most if not all African countries, not only by poverty but also by the size of domestic markets. Even the largest countries in the region can hardly provide the basis for a large-scale industrial development on a broad front. Since the possibilities of increasing exports are limited, and since it is likely that the pressures for foreign exchange will increase considerably with development, it is likely that without a drastic change in policy, development will lead to severe balance-of-payments crises and depress the level of attainable living standards. There is some danger that national protection will favour small-scale industry, the establishment of which would imply a grave burden on the balance of payments relative to the increase in income, and thus limit progress. The creation of at least a preferential customs system amongst African countries would relieve this threat. Such a customs system would enable the establishment of large-scale industry and promote an increase in both potential levels of productivity and income tax yields.

The prospects for Africa through association with the European Common Market would also be brighter if the African States could negotiate as a unit or as groups of States capable of sustaining sizeable industrial sectors. If aid is conditional on individual entry, its effectiveness will be reduced and might for some States become negative. The choice of policy might in fact best be determined by its effect on the chances of accelerated industralization.

The Role of Commodity Policy

The Acceptance of Marketing Boards

The importance of marketing and stabilization boards has become generally recognized. It is now realized that these devices have greatly reduced the middlemen's margins. It is this consequence of the establishment of marketing boards which made them acceptable to the population so that they were maintained after independence was achieved, even though the system initiated in the past could have been

easily changed. The stability of the price over the year, the knowledge which this gives to the producer, seems to have far outweighed in importance as a psychological factor the fact that at times a large proportion of the price obtained by the marketing boards in the world markets was not passed on to the producer.

The security which was thus established, despite the resumption of sharp fluctuation in price in the world market, enabled producers to lower the cost by obtaining credit at better terms. Finally, it is apparent that increases in production were more often a response to increased technical knowledge and availability of supplies needed to increase production than to changes in prices. The picture of producers in unchanged productive conditions responding solely to changes in prices is altogether an unrealistic and misleading one. The marketing boards, by providing technical knowledge and enabling the producers to act on it, seem to have had a far more influential impact than would otherwise have been the case for the same sort of price movements. In any case, before the marketing boards were established the fluctuations in price were extreme. As most African export crops have a long gestation period, the risk of such fluctuations would have reduced the response of the peasant. The reduction of the fluctuation in prices paid to the peasant, while decreasing the peak of prices, seems to have had a stimulating effect on production. A contrary view neglects the dynamic element in the picture.

The development expenditure to which the boards contribute directly (and also indirectly by enabling an easier collection of export duties) was itself an important factor in making boards acceptable even though the benefits due to the development expenditure were diffused over a far larger part of the population than the producers of the privileged commodities.

Marketing boards, then, have become an accepted and valued instrument of economic policy. However, changes in the world monetary background and structure of world trade seem to call for a re-examination of their price policy, especially in cases where similar methods could not be applied in dealing with commodities other than export commodities.

The main determinants in choosing price policy are the objectives which it is deemed to follow. If maximum expansion of output of a certain commodity is to be encouraged, the policy to be pursued must be influenced by consideration of what will give the most effective incentive to the producers, while in the case of other prices the impact

on consumption or on the monetary situation might be the decisive consideration.

The problem in Africa is complicated by the fact that a very large portion of the food crops has no monetary price at all. It is produced for self-consumption. A part of the crops, especially cereals and plantains, are, of course, sold but the selling often takes place under conditions which preclude direct reaction of the producer to price changes, as he is isolated from the market by the retail trader. In conditions in which a large measure of commercialization of food crops is already assured, a policy required to stimulate increases in output must be based on price stability. The producer would have to be assured that any increase in his effort to expand production will not result in a fall of prices; otherwise he will not respond with the maximum increase in food-crop production, and developmental process will fail on account of the consequential food imports required.

Food Crops

In Africa, the proposal to establish a marketing board with guaranteed stable prices for food, backed by a publicly owned storage capacity, might fulfil a useful function in respect to those crops the consumption of which is to be encouraged for purposes of restoring nutritional balance. In these cases, which include cereals and leguminous food, all of which are relatively easy to store, the extension of the marketing-board system might be considered. The same applies to prices of agricultural commodities such as cotton which are at the moment mainly exported but for which there is a growing potential home market, provided complementary industrial development also takes place. In this case, marketing-board arrangements already apply, and the question is mainly of establishing guaranteed minimum prices. Inasmuch as these commodities might be in surplus supply abroad, and inasmuch as economic development will certainly be a strain on domestic supplies, and climatic variations may pose awkward problems which might in their turn get generalized and cause severe monetary disturbances, the establishment of national reserves might be considered, even though in the past all these countries have been habitually large-scale exporters relative to their production capacity.

Export Crops

The new difficulties concern the policy in regard to the prices of cash crops which are mainly exported and where world market conditions since the end of the Korean boom, with the increased dominance of restrictive monetary controls, have become unfavourable. Some African countries faced with new instability tried to find an escape from its consequences by diversification of their production. In some cases, this provided, if not relief, at least considerable economic advantage, as the new crops introduced proved highly profitable. Obviously, it was lack of information and technical knowledge which had prevented their being introduced earlier. Generally speaking, however, Africa as a whole would find it difficult to diversify its production; one country will tend to increase the output of a commodity which others are restricting without much net gain. Even for the African continent as a whole, the problem posed by the decline in prices is not easy. The conventional point of view would obviously counsel a policy which would exploit the fact that the demand for most of these products does not easily respond to a rise in prices and that, therefore, export proceeds could, with the exception perhaps of oil-seeds, be increased by a restrictive policy, provided the other main producing areas participated in the policy. When the costs of supply change rapidly and when the problem concerns a crop which is very profitable relatively to other possibilities of production, it is by no means certain that an increase in export proceeds obtained by a restriction in production would be in the best interests of a country or group of countries. For the increase in production, especially if it is a result of the spreading of cultivation of a relatively profitable crop over a wider area, represents an increase in general prosperity, even though the income of some will not rise as much as it would otherwise have risen.

The problem of the State revenue has to be carefully considered. The advantage gained by an increase in production at the cost of lowering the price is somewhat offset by the fact that export duties are based on price and not on tonnage and that it would be difficult to base them on tonnage alone, though a mixture might be attempted. The political implications of a tax which reduces producers' incomes below the level to which they were accustomed is very different from the psychological impact of a taxation measure which merely creams off windfall profits. This means that an increase in price will benefit

the development fund, whereas a fall in price will tend to reduce it. A conscious effort at development on the basis of a foreign contribution or budget surplus to investment starts off a cumulative increase in *all* incomes, while the increase of the same total amount in the incomes of a group of producers might not have this effect. The increase might not be saved, and so the advantage gained by having a larger number of producers benefit from the production of a crop which is very profitable, like cotton or cocoa, might be offset by the generally depressing influence on the speed of development of the public-finance implications of the fall in price, unless the tax system was made more flexible and adjusted to incomes instead of simply to prices. While these considerations might tend to favour a policy of restriction, they do not do so without qualification. In any event, the choice cannot be made for reasons of budgetary policy alone.

If the problem of restriction is puzzling, even for Africa considered as a whole, the practical choice for individual countries is much more so. There are four types of countries involved. In the first place, there are the stagnating countries and the dynamic countries, and in each type there are countries whose production is small and those whose production is large relative to the world market. Stagnating countries, from this point of view, are not necessarily countries which are stagnating overall but countries whose ecological conditions are such as not to favour an easy increase of the production of the specific commodity under discussion. They might in other respects be eminently progressive. Generally speaking, progressive countries have little interest in concluding restriction agreements which would force them to forgo an increase or even to accept a decrease in their share of the market. The more rapid the cut in their costs (increase in their productivity) the less is their advantage. If they are small they would benefit even less from a restriction agreement (unless there is a very large dynamic competition), because for any increase which they might produce they would find markets unchanged. Stagnating large producers would obviously benefit most from restriction.

Given the rapidity and extent of the changes in production techniques and possibilities in Africa, it is probably wise not to advocate output restriction agreements, especially for small countries which do not now produce much of the high-value crop if that crop is relatively profitable given their resources.

These considerations make it clear that commodity policy ought

to concentrate on increasing the production of cash crops which are desirable from the nutritional point of view, the domestic demand for which can be expected to rise with accelerated development, and those which permit a cut in imports. So far as export crops are concerned, the problem is complex. An indiscriminate increase in production, not associated with a better balance of income-earning capacities in the country, cannot be advocated; on the other hand, in cases of dynamic countries with fast-falling cost it certainly cannot be advised to accept restriction schemes merely because prices might otherwise decrease.

This analysis also tends to show that foreign aid channelled in terms of guarantees of high prices (inasmuch as it often stimulates a particular type of privileged producer whose income rises very much above the average) might not result in an acceleration of the economic development of the country because it does not result in a commensurate increase in investment. If the alternative exists of receiving the same amount of contribution from the foreign country in terms of direct contribution, investment based on a well-thought-out plan seems preferable. This conclusion is very much strengthened by the fact that high prices for certain privileged commodities usually, though not necessarily invariably, stimulate speculative activity in land, and usually result in the rise of individual ownership or phenomena which are hardly distinct from individual ownership, tending towards absentee ownership and exploitation. Thus direct contributions to development expenditure by rich countries might not merely be more effective in promoting African progress but might also ease the social problems which are inseparable from development. Generally speaking, rich industrial countries could help also by reducing internal taxation on certain African crops and by simply increasing steadily their own national income.

Industrialization and Economic Development

The Need for Co-ordination

There is at present almost a total lack of manufacturing development in Africa. The fact that many countries where the land potential in relation to the population is less favourable than in Africa have average incomes no lower than those in Africa is also a reflection of this failure. This absence of industrialization might at least constitute a favourable starting point: it avoids the problems involved

on recognition of inefficient industries, which often cause grave hardship and give rise to much political opposition.

It has been noted, however, that most of the plans and objectives of African governments attach increasing importance to industrial development and intend to devote an increasing part of available resources (which themselves are likely to increase) to that purpose. This is particularly desirable, as the problem of urban unemployment will pose itself with special force even if the reform of educational methods is successful beyond any reasonable expectations. Thus, even the present industrialization programmes must be considered as only the beginning of what obviously will be an accelerated trend towards establishing industry as a prime means to give the development push to the whole economy.

Difficulties are nevertheless likely to arise in planning industrial coordination. Some countries in Africa have already made a start; some have had the benefit of a sizeable capital inflow and hence are better endowed in infrastructure than others; while still others which have the manpower and some of the industrial resources are totally unindustrialized. A 'freezing' of the present situation would be to their permanent disadvantage.

This does not mean that any form of industrialization in Africa is excluded, even under present circumstances. For one thing, there are a number of export-orientated processing industries which depend on the proximity of raw materials, and, provided capital and skills are available, their establishment can be considered. There is, in any case, one form of industrial development which can play a strategic role in most African countries: the establishment of relatively small-scale rural industries for the processing of local agricultural products, such as rice and other cereals, fruit and vegetables, coffee, cocoa, palm oil, hides and skins, and others. The technical and economic nature of this group of industries is such that modern efficient methods can be applied in relatively small-scale plants, employing about twenty to a hundred workers. This type of rural processing industry offers two very important advantages: first, it increases the volume and the quality of local agricultural products entering market channels, and thereby the income received by farmers, even from their present production; second, it absorbs part of the underemployed labour force and trains them in manual operational and even managerial skills *in situ*, within their home and village environment. This retards premature farm-city migration, which in many

areas is much higher than urban industries are able to absorb, and prepares potential rural emigrants for a much stronger competitive position in the industrial labour market several years hence when urban labour demand can absorb them. Nevertheless, there can be no doubt that if African States embark singly on an industrialization programme, the industries which they can support would not be sufficiently large-scale to be competitive. They would, in any case, be subjected to major difficulties of African development, i.e. heavy transport costs, high maintenance charges, provision against a multitude of risks, which in any case would offset the advantage of low wages. Lack of integration will in the long run retard the rate and limit the extent of the improvement of income.

One of the main reasons for this is the grave lack of technical knowledge and capital-investment resources. In addition, the African countries are hampered in their efforts by the complete insufficiency of their market to sustain large-scale industry. Primarily, this is the consequence of the vicious circle of poverty and stagnation, and it is this which explains that even the largest countries at this juncture would find it uneconomic to operate fully-fledged capital goods industries such as steel and heavy mechanical and electrical engineering and large-scale chemical industry. But in most States of Africa an even more important and individually unalterable cause is the small size of their population. This insufficiency of domestic purchasing power to sustain industrialization on a large scale has momentous implications for the future of most of the countries of Africa.

Paradoxically, the danger in the long run arises out of the fact that, under present circumstances, even units which might be less advantageous compared with larger-scale units might still allow increases in income because they would give employment to manpower now wholly or partly unemployed. While it might appear advantageous at present, it would certainly limit the maximum possible increase in productivity seriously, and perpetuate the inferior productivity and income position of Africa. There is, moreover, grave danger that a number of African countries will be tempted to encourage the establishment of consumer goods industries which are quite uneconomic even on a small scale but which need large imports of components and raw materials. This would also limit the increase in their income in comparison with the possibility of establishing large-scale industry on a more balanced basis and reducing overall import needs. Thus a co-ordination among African States is essential.

Conclusion

Provided policies in the various fields of action which have been discussed are kept in step, provided the educational movement is animated by the sort of zeal which created the basis for the great advance in the highly developed areas, there is little doubt that the same sort of explosive change for the better is well within the capacity of the African peoples. It is essential to weld a new elite into a new mould and to provide it with sufficient technical knowledge.

The greatest part of the burden of development will have to be borne by the African countries themselves. Their efforts to be effective must be supported by foreign aid on a larger scale than hitherto available and must be adequately co-ordinated. Technical aid and financial aid will have to be adjusted to the requirements of the national development programmes and devised in a manner which will promote rapid rural progress, the chief basis for a balanced increase in welfare.

Africa

The present chapter represents the first, unexpurgated draft of the concluding chapter of the Report on Agricultural Development in Africa which I wrote for a FAO-sponsored survey in 1961. This was undertaken at the initiative of Mr B. R. Sen, Director-General of FAO, by a combined team staffed by FAO, UN and ILO under the chairmanship of Dr Glesinger. Mr Ergas was the Head of the team, and I acted as chief economic adviser to the Director General. I bear full responsibility for this text with which neither my colleagues nor the Organization are necessarily in agreement. On the other hand I benefited by the intensive discussion especially with Mr Ergas and Dr Glesinger, many of whose ideas are incorporated in the text.

Great progress has been made since the time this enquiry was set on foot: before independence few, if any, international agencies were able to operate in Africa, and the colonial services were not well adapted to undertake modern techniques of economic planning such as has been supplied lately by the Economic Commission for Africa to various sub-regions and countries. Nevertheless progress remains very uneven, and the vital problems of the rural sector remain largely

neglected. The strange *volte face* of the 'western' Establishment, their recoil from their erstwhile championship of classical education, has not yet produced a positive programme of rural education backed by new and effective credit and supply organizations to improve output. The decline in European influence and enterprise has not generally been followed by purposive planned improvement in African methods of production. Without national service and a reorganization of the educational structure this is unlikely to come at a reasonable speed.[1]

[1] (The creation of the Ministry of Overseas Development and its powerful planning unit is a new factor in the situation. My present position precludes my discussing its implications.) (1965)

CHAPTER FOURTEEN

Malta: The Climax of Integration

THE STRATEGY OF DEVELOPMENT

Basic Considerations

A programme which steadily and deliberately reduces the present economic and social disabilities of Malta will have a twofold aim: to raise production in Malta so as to increase the number of jobs, and help standards of living rise towards the standards current in the United Kingdom; and to raise social services towards the levels in the United Kingdom, by increasing social capital and the means for current expenditure.

Such a programme must take account of the relatively high level of employment. There are shortages of certain types of labour, and deficiencies in certain common service facilities. Yet resources will become available for more productive purposes as reconstruction declines, with the exhaustion of capital grants. The rate of development, and the form it takes, must be compatible with the consequent decline of employment and also with the growth of productive capacity in the economy. It must further take into account possible changes in Imperial and Allied defence expenditure. An attempt to undertake too much at one time would raise costs and make development much more difficult. We also believe that the timing of all new schemes should be carefully considered, and an order of priority assigned, so that a smooth transition from building towards industrial work is achieved. Finally, we would urge that the importance of providing training facilities (particularly for the unemployed) cannot be overemphasized.

Common Facilities

The first group of problems concerns the development of common facilities, i.e. water, harbour, roads, sewage, and electricity. This

investment is not undertaken primarily for its own sake but because it is a necessary condition of other development.

Obtaining enough good drinking *water* has always been one of Malta's chief problems, and one on which much time and money have been spent in the past century. Since the war, nearly £1m. has been granted by CD & W, and £0·3m. allocated out of local funds. Nearly all of this has been spent, but, despite economies in use, supply has not caught up with demand. The main sea-water level is being over-pumped, and salinity is still rising. Malta is threatened with a shortage of water fit for human consumption before many years have passed. Yet if industries are to be developed in Malta, and social conditions improved, much more water will be needed. The recent application for a further grant proposes spending £1·4m. over five years. We strongly support this application but would stress in addition the need for a geological survey and a more extensive programme. In the meantime, we recommend that further attempts should be made to restrict consumption.

The *harbour* is the other common facility urgently needing your Government's attention. Although Malta once had an important trade in transhipment and bunkering, this was gradually lost to North African ports. These were continually improved while Malta has made little progress: there are still no quayside berths for ships of over 2,000 tons (so that ships have to be worked by lighter), nor any mechanical facilities for handling cargo, and the warehouses are badly sited, ill-organized, and insufficient. Losses through pilfering and damage are heavy. Some of the opposition to modernization comes from the side of the workers who remember the days when an unorganized casual labour force was exploited, and who now use restrictive practices (e.g. lighter men are paid even when lighters are not used). This all adds up to heavy charges for shipping and makes the port highly unattractive. Improving the port will be expensive, judging from the plans being prepared by the authorities, but we feel that once industrialization has got under way – and it can hardly be achieved without modernization of the port – the increased traffic will justify the investment. Moreover, reduced costs of imports will help in the task of raising living standards. No physical reconstruction will be effective if the administration and working order of the harbour cannot be improved.

We would recommend that emphasis should be devoted to these two services rather than others in the next few years. Malta already

has one of the finest *road* systems in Southern Europe. We feel, therefore, that extension and improvement of the system should be given a relatively low priority. Instead, we recommend checking road use. The need for road development mainly arises because new cars, and bigger cars, are coming on to the roads. We recommend that imports of large cars should be prohibited, and that the annual tax, instead of being based on the United Kingdom principle, should rise progressively with the size of car.

The development scheme for *sewerage* was originally estimated to cost £1·3m. but this has since been increased to £1·8m. We ask whether cheaper methods of dealing with effluence (such as that used in Jersey) have been considered, and whether the programme compares the value of the anticipated increase in output with the cost of various sewage farms. Unless, and until, these questions have been answered, it appears premature to embark on the programme.

The obsolete *electricity* station has at last been replaced, with the help of money provided by the United States agency, ECA. The economy this made possible has, however, not been fully achieved because of lack of decision, until your Government took office, about who is to pay the cost of completing conversion of the distribution system and appliances.

Productive Development

Improvement of the basic facilities is a condition for solving the problems of Malta but the solution itself is to create new productive outlets for the Maltese population. This must be done to increase, even to sustain, the standard of life, which now depends so completely on the expenditure of the Imperial Government.

Out of a population of over 300,000, the gainfully occupied amounted to 83,000 in 1954, or some 2,000 less than the year before. Civilian trades occupied 45,870, the Malta Government 14,210, the Defence Departments (chiefly the Dockyard) 18,890, and Her Majesty's Forces 3,610. (The last two, however, only employed 460 of the 12,090 women in employment.) Many of the gainfully occupied were self-employed. Most establishments (6,510 out of 9,263) had no employees at all, and all the rest had very few employees. Apart from a few (mainly British) firms, large-scale industry has not developed in Malta.

The labour statistics have to be used with caution but they suggest

that skilled labour would have been available for a higher level of *industrial* output. Moreover, the adaptability and versatility of Maltese labour are widely recognized.

Our inquiries have led us (as our predecessors were led) to the conclusion that with good management, exercising adequate supervision, Maltese workers are equivalent to British manpower for the same jobs, given the same tools. The shortage holding up the growth of private industry in Malta appears to be the lack of people willing and able to be managers. It would be most desirable if foreign firms trained Maltese personnel, both in Malta and overseas, to be able to take over the supervision of work.

There has been much hostility by importing interests to the establishment of new Maltese industries, a hostility based partly on the fear that the industries would be protected.

We are not inclined to condemn protection of new industries, provided the arrangements allow some competition from imported products. In many cases, potentially successful ventures have been stifled, and a hopeful market spoilt, by a number of reckless firms imitating the pioneer firm with shoddy products, something only possible because imports had been completely excluded. Another check would be the establishment of some body to investigate complaints and impose minimum standards of quality, particularly if adequate publicity were arranged to ensure that unfounded charges were pilloried.

Any such programme is dependent for success on the attraction to Malta of a number of overseas firms, especially British ones. We have little doubt that this can be done if certain administrative reforms are enacted and adequate common service facilities are provided. The fact that Malta has a relatively warm winter climate should be an attraction to the higher executives of large British firms and their wives. There must be an energetic public campaign to draw attention to these, and other, advantages of Malta.

The main attraction of Malta must be to firms with relatively large labour costs. Materials and fuel are usually expensive in Malta, for obvious reasons. But there is a large body of intelligent and adaptable labour at wage levels which must, in the best of circumstances, remain below those of the united Kingdom for some time to come. This is the greatest attraction of Malta to overseas firms, and therefore it must play a big part in stimulating the birth of industrialization. In due course, the difference between wages in Malta and in the United

Kingdom would narrow but by that time industrialization would have acquired a certain momentum.

But more powerful inducements may also be needed to bring British firms to Malta. Malta might be brought under the operation of the Industrial Location Act, or allowed to benefit from some analogous scheme. In addition, the British Government could greatly help if, when placing certain defence orders (especially in plastics and perhaps in light electric engineering and electronics), it specified that part of the work must be done in Malta. In so far as labour shortages are acute in the United Kingdom, this system might prove beneficial to both sides. Without some such purposive British action, we are unable to see how Maltese productive capacity could grow quickly enough to enable a slow but steady decrease of dependence on direct British Government grants.

We would emphasize, moreover, the importance of establishing an industrial trading estate (e.g. by remodelling the port area). Little industrial progress can be made by extending the present antiquated factories, often little more than sheds. A new set of factories must be established.

When a double taxation agreement between the United Kingdom and Malta has been concluded, no tax concession by the Maltese Government will be of any use to British firms. Any concession would be automatically offset by an increase in the tax paid by the firm concerned to the United Kingdom. We suggest that your Government should attempt to secure tax-exemption by *both* Governments for the portion of profits ploughed back into further Maltese development.

All the stimuli we have suggested will be needed if enough British firms are to be attracted. Only in this way can sufficiently quick progress be achieved to raise Maltese income, and to relieve the British taxpayer of his responsibility (or at least substantially reduce it) in the foreseeable future. Once some start *has* been made, we are confident the advantages of Malta will soon become apparent to other firms.

The plight of the *fisheries* is yet another which has been treated by every post-war economic report on Malta, and about which little has been done. Although Malta is a small island, the Maltese demand for fish exceeds considerably the landed supply, which has to be supplemented by imports both of fresh and preserved fish. The problem of Malta's fishing is in essence one of lack of suitable equipment and technical knowledge.

Provided the elements of a plan for developing fishing are co-

ordinated and the Fisheries Department is strengthened, there is hope of reviving the industry.

The Petroleum (Production) Ordinance, defining the legal basis for the exploration and exploitation of *petroleum*, natural gas, and so on, in the islands, was passed in 1947, and detailed regulations were issued in 1949. The latter are far more restricted in scope and less severe than those of either Canada or the United States regulating exploration and exploitation of hydrocarbon deposits. In particular, there is no provision for an equal participation of the Maltese Government in the benefits. Nor is there any 'preference-vote clause' to safeguard the interest of Malta in fixing prices and quantities produced. This applies particularly to natural gas, the availability of which at low cost could be the basis of a number of important industries.

The climate, the history, and natural beauty of the islands naturally raise the question whether they could not be developed into attractive centres for *tourists*, and thus provide an extra source of employment. There are two important difficulties in the way of the fulfilment of this natural hope. The first is the distance from the most important obvious source of tourism, Great Britain. The cost of travel appears to be increased by the cabotage charge for passengers breaking their journeys in Italy, and by prohibitions on lines (other than BEA and Malta Airways) setting down or picking up passengers in Malta. Since this makes it expensive to combine visits to Malta with those to Italy or Cyprus, the removal of these obstacles should be an object of government policy. The second and hardly less important drawback is the lack of attractive hotels or entertainments (such as a casino). Moreover, there are in some quarters strong objections to providing such entertainment, as well as hostility to certain cosmopolitan habits of visitors. It is not our province to criticize these views. We can, however, suggest that tourism might be developed without giving offence, if the facilities were confined to foreigners.

In *agriculture*, the possible lines of advance are easier to visualize. The majority of the farms in the islands are very small, averaging between three and four acres. In the more fertile low-lying area there are some exceptions but even the larger farms rarely exceed forty acres. The smaller farms are usually worked by the farmer and his family without hired labour. The size also precludes mechanization. Farm methods have been developed which Sir Wilfred Woods found effective enough (given the limitations of the industry), but little, if

any, effort seems to have been made to use the best seeds, nor has much thought been given to introducing new crops which would take full advantage of the exceptional climatic conditions of Malta.

One of the great difficulties experienced in obtaining profitable markets for the Maltese products is that it is hard to inform overseas countries that such products exist. Maltese firms are usually neither able nor willing to risk their capital introducing products abroad, especially since they have in the past often been confronted with competition from other Maltese firms after having incurred this expense. Establishing a collective export agency in London would well be worth consideration. Maltese products might be collectively advertised, and some collective trade mark devised. The activity of this agency should come under the supervision of an industrial development board. The reputation of Maltese products should be safeguarded by enabling the board to license exports, as is done for example in Jersey for flower and vegetable exports.

Social Services

We have no doubt that, in the strategy of a determined but steady advance towards British standards, your Government has rightly decided to put social services first.

Elementary *education* has been shockingly neglected in the past, despite the decision to introduce compulsory education. A sweeping reform is the essential basis for all economic advance. It will have to be followed up as speedily as possible by the introduction of technical education, a field which has been shockingly neglected despite insistent advice from practically all expert advisers. Since the demands of middle education (especially teacher training) are also pressing, an intensification rather than a broadening of higher education must be the aim for the present.

Looking at the other social services it is difficult to assign priorities and decide where help is most urgently needed: the need is so great everywhere. We commend the decision of the Government to improve old-age pensions and increase the scale of social-service benefits generally, but care should be taken lest the benefits for numerous families should outrun wages and other incomes available in the Island.

An increase in the scope of general assistance through the establishment of an assistance board might be a first step. This board would

deal with cases of hardship not covered by existing legislation.[1] On the other hand, an unemployment benefit, unless its introduction to Malta is handled with great skill, might interfere, in the short run, with both emigration and the adaptability of manpower. Its establishment should therefore wait until it can be combined with a scheme of thorough technical training. Within the urgently required programme for expansion of technical education, however, such a benefit scheme would play an important part, for training of adults without this help could obviously not be effective.

The extensions of the *health* service proposed (e.g. the tuberculosis sanatorium and children's wards) mainly require construction expenditure. They would still leave Malta far behind in health facilities and should be expedited within a coherent plan of building development.

The *housing* programme has, we understand, been discussed with the Housing Adviser of the Colonial Office, who is about to put in a report. He suggests radical modifications of the original programme of slum-clearance put forward. His estimate of rehousing 1,500 families could be accommodated in the balanced programme of reconstruction which we have in mind.

We must emphasize, however, that the Maltese building and construction industry, as organized at present, seems fully occupied. Any sudden increase in general construction or house-building would necessarily compete for the labour required urgently for the establishment of schools and factories, and to increase the water supplies which Malta needs so badly.

FINANCIAL REQUIREMENTS

We feel that we are bound to indicate what sort of amount is required for capital development and current revenue from the British Government, although we do this with hesitation, because we can only make very tentative calculations. Basing ourselves on studies carried out for Southern Italy, modified by taking into account the fact that a much larger volume of social equipment is available in Malta, we guess, very tentatively, at the order of magnitude of the needs under the first head at 10 per cent. of gross national income, or at present £3–3·5m. per annum. Since the economy is fully employed, it would be difficult

[1] The regulation under which a family cannot get social-service assistance if its head is fit for work, *even if unemployed*, seems particularly severe.

to spend this amount yet. However, this could be accommodated as war-damage investment came to an end, and would have to rise somewhat as maintenance charges increased, and output rose. Over a long period, outlay on this scale might be expected to produce an increase in national income of perhaps nearly 5 per cent. per annum, which would provide increasing employment and permit rising living standards. Energetic efforts must be made to use this rising income to increase the supply of capital by Malta itself, so that the burden on Britain would fall away; this is a politically necessary condition for the extensive British help required. We estimate that an annual grant of roughly £1·5m. would be sufficient on the second score, rising as educational and other essential expenditure increases.

Some of the natural circumstances, limiting the opportunities of an able, healthy, vigorous, and ambitious people, obviously cannot be changed by human action. The complete absence of rivers, timber, coal, iron, and metals of commercial value are such circumstances. Any considerable expansion of Malta's national income (apart from employment in United Kingdom Services) will have to come from more extensive exploitation of the land, or from the production for export markets of the limited range of consumer goods which her resources in labour make possible. But the Maltese people must be aware that they are faced with an immensely difficult problem.

The development of Malta must be based on a programme of lifting productivity in all sectors of the economy – in the dockyards, in manufacturing, and in agriculture, to name the most important. Then, and only then, would a general increase in wages and in living standards have firm foundations. The alternative way of improving the conditions of the Maltese people, by raising dockyard wages suddenly and substantially, would be far less satisfactory. It would cause some work to be transferred to other dockyards, reducing employment; it would bring about an upheaval in the Maltese economy, with sudden jumps in all other wages and prices; it would make the establishment of factories in Malta an unattractive proposition for overseas firms; and it would leave Malta more than ever dependent on the Services. Raising wages to the levels of the United Kingdom must be a long-term objective but unless it is part of an organic process, in which the whole economy participates, it will be self-defeating.

Part of the total capital expenditure might be financed by a carefully worked out scheme of low-interest loans guaranteed (or possibly

even raised on behalf of Malta) by the Imperial Government.[2] If this expedient is adopted, careful attention must be paid to the conditions of servicing the loan, so as not to overburden a fragile economy. Provided, however, that this requirement is fulfilled and the development schemes are carefully worked out, there seems no reason why Maltese national income should not rise sufficiently to enable an increasing burden of interest to be met with comparative ease out of taxation. Part may also be provided by imports of private capital – particularly the construction of branch factories in Malta by United Kingdom companies – and part also from local savings. It would, however, be quite incorrect to rely on these possibilities in the immediate future, to finance the bulk of the programme. They are, rather, sources of savings that should enable the flow of British Government finance to be reduced as the development of Malta gathers pace.

If full British Government co-operation is to be achieved, reconstruction plans must obviously take due account of Imperial Service needs. Conversely, however, the Maltese Government should be in a position to expect that any decline in defence expenditure will be so managed as to minimize the unfavourable impact on Maltese life, by giving time to organize alternative occupations for workers released. With some skill the rhythm of emigration could be so adapted as to avoid, on the one hand, serious manpower bottlenecks and, on the other, unemployment.

What is needed is a *long-term plan stretching over a number of four- or five-year periods.* For the first of these, detailed targets should be prepared as rapidly as possible.

ADMINISTRATIVE REQUIREMENTS

Such a programme would involve new administrative arrangements within the Maltese Government and also (quite apart from the constitutional reform under discussion) as between the Maltese and United Kingdom Governments.

[2] We should call attention to the fact that the Maltese economy has been continuously lending to the UK through the purchase of defence bonds, the maintenance of a 100 per cent cover in Britain for the note issue, and the investment of the whole of the savings banks deposits in Britain. These last amount to well over £30m. A mobilization of a part of these savings for productive purposes seems reasonable.

Maltese Government

The most important immediate task is to provide for regular collection and analysis of facts on the structure and trends in the Maltese economy. This involves the establishment of an *Economic Advisory Office*, the expansion and strengthening of the Statistical Office, and the linking together of these two offices. There is at present no organ in the Maltese Government, either on the Imperial or the State side, which could formulate economic policy. Indeed we doubt whether there is any expert who continuously surveys the general economic and social development of the Maltese economy, either in Malta or in London, and who is capable of advising either Cabinet.

Elementary facts are lacking even in the vital field of population statistics. No production or distribution census was ever held. The first comprehensive family budget survey is only now in progress. It is astonishing that more mistakes in economic policy have not been committed, and more hardship not caused. There can be no question of embarking on an ambitious programme of economic development without the basic statistics being improved.

Malta and the UK Government

A long-run economic programme needs continuous and effective consideration of economic issues at a high level between the Maltese Government and HM Government in the UK. While Malta needs to be enabled to break out of its poverty and dependence, there cannot be any blank cheque on the British taxpayer, underwriting without limit the cost of either rising living standards or a rising population. Any financial settlement must be acceptable to the British public.

A second reason why there ought to be much closer and stronger links for consultation is that Malta is greatly affected by any variation in the spending of the Services. A sudden strategic change could mean sharp unemployment or severe inflationary tendencies. The swiftness of changes of this outlay on serveral occasions in the past (1908–9, 1931, and again in 1949) is an adequate demonstration of what can happen. Economic instability is no longer placidly tolerated by modern public opinion, and such lack of influence on the main – indeed the only – possible source of instability can only be a potential cause of trouble. A full-employment policy, like a development policy, involves both Britain and Malta.

Whatever is the relationship between the UK and Maltese Governments and people, it involves, as it has done in the past, severe constitutional problems. As the Malta Royal Commission of 1931 put it:

> 'It was not practicable to look at the matter merely on its local merits, as might have been the case if we had been dealing with, for example, a West Indian Colony. The position of Malta is a special one. The Island has a significance to the Empire out of proportion to its geographical extent, the number of its population, or its material resources. A simple question regarding the best form of government for a small island is one on which recommendations could have been framed with relative ease, especially having regard to the wealth of experience and examples which the British Empire provides in these matters. The Malta question could not, however, be reduced to these elementary terms. It involved, as we have indicated, questions of high policy of an Imperial and diplomatic character.'

Strenuous efforts have been made (although not always as strenuous as were required) to reconcile the often conflicting demands. The Imperial Government has needed military security and a level of Service expenditure compatible with its general strategic and budgetary policy, whilst the Maltese people have needed representative government, equality of status, and a continuous rise in living standards.

The peculiar feature of the present Maltese constitution, a dyarchy, represents one attempt at reconciliation. The 'reserved' matters, i.e. those which concern defence in its widest context, are the responsibility of the Governor and his Nominated Council, which consists of his principal Imperial advisers and the heads of the three Services in Malta. In all other matters the Legislative Assembly is in fact supreme. A Maltese Privy Council was instituted to provide a body on which members of the Imperial and Civil Governments could sit together and resolve matters of conflict.

We do not believe that the mutual responsibilities of Malta and the United Kingdom can be discharged within the present system of dyarchy. A more direct channel between the two Governments, and a more direct chain of constitutional responsibility, are not only economic necessities, but would in any case accord more closely with the basic British constitutional arrangements and political spirit.

This does not only affect strategic issues. Foreign-trade treaties,

like other treaties, are another 'reserved' matter, and provide a good illustration of the damage that can be done by lack of Maltese participation in the formulation of decisions.

The policy of successive London governments since the war has been to liberalize trade and to avoid new imperial preferences. Because of the General Agreement on Trade and Tariffs, Malta has been prevented from enjoying those preferences which, though 'accordable' to colonies under the Ottawa agreements, had not in fact been claimed for them by the United Kingdom. Industries recently established – brewing is a notable example – therefore find that they are denied preference in Commonwealth countries, because of the failure of the Board of Trade in London to claim these rights for Malta before the General Agreement was signed. This failure is, in fact, hard to explain anyway, but it could hardly have been possible if Malta had been conducting her own foreign economic policy, or had been brought into the discussions before imperial policy was decided.

Some permanent committee in London appears essential, both as a means by which Malta could convey her views directly to heads of services, and also as the body helping to steer the economic development and to assess the finances required. It would be needed whether Malta became an integral part of the United Kingdom, as is the policy of your Government, or negotiated with it as a power with full economic sovereignty. But such a committee would not alone be sufficient.

The essence of the *economics* of the constitutional question is that Malta is under the present arrangements excluded from the control over its own economic destiny, and the United Kingdom can hardly expect or desire such a situation to continue indefinitely.

One possible solution is that favoured by your Government, integration with the United Kingdom. It is naturally outside our terms of reference, or our competence, to discuss the full advantages and disadvantages of such an arrangement. But from the viewpoint of the economist, this would have the great merit that Malta's development and stability would be automatically assisted under the 'development-area' arrangements for dealing with economically backward areas within the United Kingdom. Maltese social expenditures would be raised with external help towards the United Kingdom standards, and a much more direct political channel would be provided for influencing Service expenditure. The effect would be to open

up new and permanent sources of finance. Naturally, while these consequences would greatly help Malta, they would have to be introduced carefully and gradually over a period of years so that the integration would be a natural growth, as we have emphasized before. Otherwise there would be a severe economic dislocation (e.g. arising out of the abolition of tariffs which now protect Maltese industry) apart from serious administrative problems.

CHAPTER FIFTEEN

Malta: Anti-climax

DEVELOPMENT PLAN FOR THE MALTESE ISLANDS, 1959–64

'New' Plans

The long-heralded and much-boosted 'Development Plan' of the colonial régime that had been imposed on Malta in 1958 has now at last been published. It comes as a sad anti-climax to the magniloquent claims of the ex-Governor and of the ex-Colonial Secretary to provide the basis for the transformation of the islands from utter dependency on Service expenditure to economic viability based on exports of manufactures. It will do nothing of the sort. The consequences for Malta will be serious if not catastrophic. Two years have already been largely wasted, despite the 'commercialization' of the dockyard and the probability of severe cuts in defence expenditure, on which Malta now depends.

The degree of this dependence on defence expenditure is staggering. Roughly half of the total national income of just below £40m. is directly dependent on service expenditure: the total of Maltese imports are financed by it.[1] Roughly about £6m. aid was granted per annum to the last democratically elected Maltese Government by the British Government.

The last negotiations between these governments took place before the discontinuance of the Royal Dock as a naval establishment had been definitely decided upon, and when the defence cuts contemplated were nothing like as severe as they now seem. The British representatives then conceded roughly £29m. for capital development for the next five years and a subsidy on the current budget which would have worked out at about £1·25m. per annum. The British

[1] It is significant of the decline in the quality of economic work done that none of these figures is analysed in the printed document.

contribution to the five-year plan *prior* to the commercialization of the dockyard and defence cut was promised to the extent of roughly £32·5m. The British Government also agreed in the summer of 1957 to cover the cost of such additional measures as would become necessary as a result of a 'substantial change' in British defence policy and expenditure in Malta. Thus the aid already promised to the Maltese Government amounted to a minimum of £40m.–£45m. Nor was anyone under any illusion that the conversion of Malta from a sea-fortress into an industrial emporium could be accomplished in five years. It would have had to be continued on broadly the same scale for some time.

It is against this background that the 'new' plan of the colonial government has to be scrutinized. The result is lamentable. The total British contribution on capital account is limited to £29·25m. of which only £25·5m. has been effectively allocated and of which £1·4m. really represents the war-damage compensation granted years ago. The scale of British help promised has been practically halved, certainly reduced by more than a third. Yet the Maltese ministers and their economic adviser had grave doubts whether even the larger sum was sufficient to accomplish what is an unprecedented task in economic, social, and educational transformation.

The development is said to consist of £12m. of schemes 'inherited' from the previous government and £16·25m. for 'new' spending.[2] None of it, of course, represents 'new spending'. It consists of an illogically cut edition of the programme worked out under the Labour Government.

'Full' Employment

The Plan states that the aim is full employment. It adds, however, that this 'full' employment is mainly to be achieved by *emigrating at least 10,000 workpeople in five years.* This means, under Malta's conditions, a total emigration of at least 30,000–40,000 altogether, or 7,000–8,000 per annum. While this 'target' might be achieved, given the extent to which uncertainty and dismay have been created in the islands, it is difficult to describe it as the creation of 'full' employment in a satisfactory social atmosphere.

[2] The original plans of the colonial government amounted to £20m. Four million pounds have now been put to 'a very necessary reserve'. This means that, if prices, as is only too likely, go up as the result of the mistaken policies of the government, the total real investment and expenditure will be cut.

Given the fact that the present Administration is unlikely to do anything which will promote the fall in the birth rate, the undesirable social conditions which have given rise to great apprehension on the part of all experts visiting Malta, the separation of families, the increase in numbers of (unmarriageable) young women without hope, will be so much accelerated as to create, at the end of the period, a really serious situation.

What will certainly not be accomplished is the employment of those who lost their jobs and those 'new' workers who have not emigrated. Paragraphs 16 and 17 of the 'Plan' represent a masterpiece of self-deception and fallacious argument.

> 'A net increase of 6,000 must therefore be catered for, over and above any decline in service and crown employment. It is difficult to put any precise figure on this decline, as so many imponderables are involved. It seems reasonable to assume that Baileys Ltd. will continue to employ about the present number employed in the Dockyard, if the ancillary industries which are proposed are successful. Government and service employment may decline by about 3,000 over the period, so far as can be foreseen at present. If this is so, the question resolves itself into this form: is the proposed investment in industrial development and other economic services of such an order that it can fairly be expected to create employment for a labour force of about 9,000? Taking into account that an investment of about £4½ million would reasonably be expected to be matched by at least an equal amount of private investment, a total investment of about £9,000,000–£10,000,000 is a reasonable assumption. It is also fair to assume that for any new employment created in new industrial development, further employment will be created in the general distributive, personal and similar forms of service. Therefore, the forecast of net new jobs needed to maintain full employment is reduced to about 5,000. Whether calculations are made by direct 'pounds per new job' calculations, or by working down on the normal capital to output relationship (2:1) and breaking down output into 'added value' and then assuming the labour wage element of that 'added value' to be broadly the same as elsewhere, it appears that the 5,000 new direct industrial jobs can be achieved, if the total investment proposed is taken up, including the £2 million kept in reserve but earmarked for grants and loans for industrial development.'

It is plain that the 'economic' experts have not taken into account that the 3,000 workers now employed by the Services already give 'further employment . . . in the general distributive, personal and similar forms of service'. Their re-employment certainly does not create the *same* number of new jobs. Nor is it at all likely that additional industrial employment has the multiplier effect assumed in the 'service' trades: there is a large excess capacity in these in Malta. Thus, even on the most optimistic assumptions, at least 6,000–7,000 new jobs must be created. And all this assumes that Service expenditure will not fall much, though the Colonial Office did not have the courage to publish the essential figures showing exactly how Service employment is only going to fall by 3,000.

'Industrialization'

The 'industrialization' plan shows conclusively that the Colonial Office has not had any economic advice worth considering seriously. To talk of a 'normal capital to output relationship' in this context, i.e. only considering industrial investment, is an incredible imbecility. Shoeblacks must have a capital output ratio of 0·001, steelworks 10.

What do the present 'plans' portend? Of the £5m. which is to be devoted to industrial development, only £4·5m. is for grants and allowances to industrialists (of which £2m. 'in reserve'). It has been found in the Italian Mezzogiorno that loans are insufficient to induce industrialists to settle, and that grants will have to be given. On the basis of £9m. (if we suppose that the grant is equal in proportion to that given in Sicily), it is difficult to imagine that more than 2,000–3,000 jobs can possibly be created, as the only industries which would be likely to thrive in Malta are light engineering industries, where £2,000 is a very low average for the capital needed per head employed.

The Total Insufficiency

Unless the programme is completely reversed, terrible consequences must follow. It is absolutely impossible to contemplate a run-down of British aid and investment programmes. When Malta's reconstruction was first envisaged in 1955 as a coherent total operation, not *one or two but several five-year plans were contemplated.* Indeed, the Colonial Office pointed out that a minimum to be envisaged for the completion of the job would be twenty-five years.

The present plans provide for a sharp decline in investment from £6·5m. to £1·96m. per annum *even if the money for industrial development is completely taken up by industrialists. This means a tremendous deflationary pressure unless it is assumed that an expansion of exports of much more than proportionate magnitude will take place.* It is only the value added in Malta, i.e. minus imports of raw materials, fuel, machines, and salaries and profits paid abroad (minus Maltese taxes), which creates income in Malta. Indeed, even at the present level of wages, net exports in this sense would have to increase by roughly £4–5m. per annum in order that full employment should be retained. If, in addition to the running-down of the capital expenditure, Service expenditure is run down, then the additional expansion needed is exactly equal to that further run-down. If, that is, the run-down in Service expenditure was equivalent to 2,000–3000, workers' wages, the *net* output and exports would have to increase by much more than those wages because, of course, profit would have to be earned on these wages (and will mainly be exported to Britain), which, so long as the people are in government employment, is not required. This means that *net* exports altogether would have to increase by something like £7m. per annum in the next five years, apart from any fees earned by Bailey's.

Nor is this all. It would be foolish to think (as the 'Plan' does) that this 'new' civilian investment and export activity will create a secondary expansion of incomes (shops, services, rent, etc.) in Malta. It merely *replaces* British Government outlay and cannot generate additional secondary expansion; it merely keeps Maltese income where it was, and prevents a multiple decline consequent on the cut in British Service expenditure. Only if exports and building activity rose beyond the level previously maintained by Service expenditure would that represent a *net* addition, capable of generating multiple expansion. This is most unlikely, as the uncertainty created by the government must cause people to hesitate before investing in Maltese *real estate.*

I feel that such an expansion of exports and building activity is completely out of the question.

The Inevitable Failure

It is quite obvious that what will happen is that large government deficits will be incurred to keep people from starving. These will have to be borne by the British Government and will be borne by the

British Government without contributing to the reconstruction of Malta or to the happiness of its population. These deficits will then be taken to the House of Commons as unexpected and unexpectable and will be voted by a majority which will not be told that all this had been predicted by the Maltese Labour Government.

Alternatively, the existing Maltese foreign reserves would have to be used to buttress the deficit by internal borrowing, and thus the accumulated wealth of the country will be wasted without the assurance that this process will end by building up Maltese productive and foreign-exchange-earning capacity. A more disastrous policy could not possibly be imagined.

General Economic Policy

It is interesting to note that the colonial government is unable to face its responsibility by imposing new taxation on any considerable scale, even though its attitude and plans would necessarily demand such an increase.

It should also be noted that the colonial government is now contemplating an *abolition of price control*, including the control of house rents. Thus the process of increasing unemployment will be used to decrease real wages. It is then contemplated that family allowances should be introduced in order to offset this increase in price levels and avoid wage demands. This policy is hardly likely to solve Maltese problems. It will aggravate them. In the first place, the impact of the increasing prices on the young, and newly married, people will not be offset by family allowances. The Maltese population is very young, and the appreciable part therefore will suffer. So far as family allowances are concerned, in conditions such as obtain in Malta these can help to increase the birth rate. There is no country similar in social structure to Malta in which this has not happened as an *impact effect*. In Malta's conditions, these impact effects might last *for a long time*. In the meantime, the real value of funds available for reconstruction will be cut more than the saving of subsidies.

Thus, while an abolition of price controls could not possibly do any good, the introduction of family allowances may do a great deal of harm, and the process will certainly disturb the present wage level and will lead to social unrest. The decision to abolish the present system of price stablization is supported by references to the need for the working of the 'free economy'. This, in the conditions of

Malta, has no sense at all. An overwhelmingly large part of Malta's consumption *is imported*, and the arrangements about prices merely mean a redistribution of income which keeps at bay a wage spiral without having any impact effect on *Malta's production* (except perhaps on milk, and this could be dealt with far better directly).

The conclusion is inevitable that the memorandum contemplates a policy and a situation in which increasing unemployment and decreasing real wages coincide with a process of vigorous industrial growth which should enable Malta to borrow abroad and gradually become independent without any cost to the British Government beyond the same £29m. already voted. This vista is the result of a compound of ignorance of primary economic relationships and complete lack of political imagination. The policy contemplated cannot help but exasperate feelings in Malta and lead to unrest, as it will make it clear to the people that they have no hope.

Malta

The two chapters on Malta represent the climax and anticlimax of Mr Dom Mintoff's imaginative idea of bringing about an integration of Malta into the UK. I still believe this (or an integration into the alternative economic unit – the EEC) to be the only reasonable solution to the problem of that small and overcrowded island. There are surprisingly large numbers of small islands whose economic existence has been undermined by a population explosion and economic change. Their political independence will not provide a viable answer to their socio-economic problems.

The volatile fickleness of the Service Chiefs in the appreciation of Malta's strategic role in the Mediterranean, for NATO in general and for Britain in particular, not only suggested a disturbing lack of knowledge of modern warfare (this was borne out by the Suez fiasco and the frightful waste of money on abandoned weapon projects); it also basically bedevilled the solution of the economic and social problems of Malta in 1955–8. It periodically encouraged Maltese leaders in extravagant ideas about their bargaining power, only to let them down at crucial moments. The Treasury, on the other hand (especially in moments of monotonously recurring British exchange crises), showed a complete disregard of the susceptibilities

of the Maltese. The subservience of the financial 'experts' of the Colonial Office translated itself into petty attempts to 'claw' back as much as possible of the subsidies, rather generously granted by their political chiefs. They were incapable of discussing seriously Mr Mintoff's social and economic proposals and making constructive counter-suggestions. He was confronted with brusque ultimata in his demands for British help. He was thus in his turn driven towards, and encouraged in extravagant aggressiveness, and the history of British reaction to violence in other Mediterranean countries – Egypt, Palestine, Cyprus – did not incline him towards pacific acquiescence. This aggressiveness was further enhanced by the Treasury's choice of 'experts' on various financial and economic questions (including the problem of family allowances in a country where family size is about triple that in Britain). They usually granted more than Mr Mintoff originally thought of getting (at times even asking). This complicated the efforts of his unfortunate advisers to elaborate and obtain agreement on sensible and coherent policies. Finally the hamhanded brutality of Mr Duncan Sandys in blurting out the intention to close the Royal Dockyard – the basis of Maltese life – drove Mr Mintoff, accustomed as he had become to the strange and rather Oriental bargaining behaviour of the British bureacracy and service hierarchy, to unreasonable demands for guarantees of Maltese standards of life, and to violence which led to the suspension of the constitution.

The next episode was a ridiculous attempt by the Colonial Office to outbid Mr Mintoff in popularity. This ended in the dismal episode of trying to commercialize the dockyard and evolve a 'plan'. The latter was completely misconceived and showed a revealing lack of expertise in planning. I duly attacked it. A precipitate grant of independence followed, to a régime based on the clerical opposition to Mr Mintoff rather than on administrative capacity or political principle. It is to be doubted whether the economic concessions (including a favourable treatment of emigrants from Malta) will be sufficient to assure the viability of the island. This would seem to depend in the first place on dealing with the population question (it is interesting to note in this respect that the fertility of the upper income classes seems rather less than that of Britain while that of the lower echelons is some treble or more). In the second place it necessitates a conscious policy of encouragement, if not direction, of industry towards the less favoured marginal territory. This is hardly possible without political integration. The problem of Malta and

other islands reflects in an exaggerated form the difficulties which beset handicapped areas of a prosperous entity. The problems of Greece in EEC or of the Epiros or Peloponnese within Greece are in principle identical, as are those of Scotland, Northern, Ireland, Wales and the North of Britain.

CHAPTER SIXTEEN

Ghana: Failure on the Volta

The only reassuring aspect of the mammoth report of the Preparatory Commission on 'The Volta River Project', for an economist sympathetic to the Gold Coast, its people and government and their natural aspirations, is the Prime Minister's firm and wise statement that it will not be considered until after full independence. This should enable the Gold Coast Government and Parliament to make up their minds untrammelled by difficult extraneous personal considerations.

This scheme for generating electricity was first investigated in 1924. Since then the Soviet Union has built Dnjeprostry and Kuybishev and the Irtysh Dam, and India the Bhakra Nangal project. In Africa, even the Owen Dam has since been finished, and the Kariba begun. But on the Volta there was a pause, and the latest pause for yet another investigation – by the International Bank – is a typical by-product of the way in which the Preparatory Commission handled its task. But now at last there is a good reason to wait. Dr Nkrumah will perhaps in the end have his own way.

The bus has, of course, in a way, been missed. What I feared last year has come to pass: 'The luck of the cocoa market may not last and the present reserves could be rapidly run down by popular extensions of social services, unaccompanied by expanding production and income.' Here in a nutshell was and remains the problem of the Gold Coast: to increase income and to render it less dependent on cocoa exports. The Volta project must be judged exclusively from that point of view, which must be the basic criterion for the Preparatory Commission and for assessment of its work.

Production of aluminium might be the sole aim of the aluminium companies (though if they are wise they will not fall into the terrible mistake of those two other international companies dominated by British Government shareholdings, the Suez Canal and Anglo-Iranian, of disregarding their general impact on the host country).

It might be an interest (though certainly not predominant) of the British Government. But it can only be a means to a very different end for the Gold Coast. The Preparatory Commission was not appointed or financed by the aluminium companies. It was appointed and financed by the Gold Coast and British Governments. Its duties should have been clear.

Its reports show little consciousness of these basic duties or, what is far more disturbing, of the fact that these duties might well conflict with the interests of the aluminium companies and, indeed, with the future of the Volta project. To be blunt, if the strain of the Volta scheme is too great to permit both its accomplishment and the simultaneous carrying-through of other projects more beneficial to the Gold Coast itself, and not merely to the aluminium companies or even to the sterling area, then it is clear that it is the Volta scheme and not the other projects that should suffer. This may not be pleasant for the companies or even to prospective members of the Volta Authority, but there it is. It is this paramount problem of protecting the economic interests of the Gold Coast which we must discuss first. We shall then turn to the subsidiary question of how the Volta scheme was handled by the commission.

The only reference to the basic economic problem I can find is by way of a compliment to Professor Arthur Lewis, who is said to have shown (p. 734) that 'its (the Volta scheme's) successful development could do more to increase *per capita* income than any other contemplated use of the national resources. He has calculated that aluminium would earn at least twice as much per worker employed as cocoa.' (My italics.) I have great affection and respect for Arthur Lewis but surely this statement is wholly insufficient as a base for the economic policy of the Preparatory Commission.

It would be most unfair to Professor Lewis to base an evaluation of his work on the excerpts quoted by the Preparatory Commission, but it is unfortunate that nothing else is available, and the Preparatory Commission has to be blamed for this crass omission. (They were certainly not so bashful and discreet when discussing quite freely the far-reaching changes the Cold Goast Government needs to make in its own development plans to enable the aluminium scheme to remain profitable.) The sentences quoted are wholly insufficient to make the point the Preparatory Commission wishes to suggest, i.e. that the Volta scheme is the best possible utilization of Gold Coast resources. We do not know when Professor Lewis made his calculations and on

what basis. Were, for instance, the additional burdens due to an increase in interest costs and decrease in returns taken into account? Or was the valuation made on the original, much more favourable, financial basis of the 1952 White Paper? In any case is it not likely that his position has changed somewhat in a changing world? Ought we not to know?

But, in any case, why should the output per man be any indication of the advantage to the Gold Coast? One is slightly taken aback at this unexpected reversal to the labour value theory. Did Professor Lewis take into account the vast capital needed to back up the relatively small volume of employment which the scheme is to give? For every man employed some £30,000 of capital would need to be invested. Indeed, as we shall see, it is one of the gravest objections against the scheme that it gives so little employment at higher wage-levels.

If we, then, dismiss the criteria given by the Commission, we must give some indication of the order of magnitude of the cost and the possible advantage to the Gold Coast of the scheme. The total cost is now estimated at between £231·3m. and £309m., as against the £144m. which was the earlier estimate. The most violent increase in the burden would affect the Gold Coast: from £26m. to between £72·5m. and £80m., i.e. up by about 200 per cent. The cost of the power project would only increase from £54m. to between £67·6m. and £97m., i.e. at most by less than 80 per cent. The cost of the smelter and of the mines would increase from £64m. to between £91·2m. and £132m., or by, at worst, just over 100 per cent.

Gold Coast Government commitments thus increase to at least some £120m. On this, the earnings of the Gold Coast Government, if all goes well, will not be more than it already receives on its reserves in London, or roughly 5 per cent. On certain items, such as roads and bridges, there will be a net (financial) loss, as the reserves which will be used to cover their cost now earn interest and will have to be sold. This will represent a real (social) loss in so far as roads in the Volta area will be less useful (unless the scheme enables the government to cover the whole cost financially) than elsewhere. Thus, on balance, investment in public works or in electricity generation (i.e. even if no losses have to be incurred in selling electricity) will at best not give any additional yield except for the indirect general stimulating effect of the availability of power not absorbed by aluminium production.

This has important consequences for policy that were completely ignored by the Commission.

On the other hand, potentially the commitment of an overwhelming part of total Gold Coast reserves to the Volta will severely circumscribe any alternative development. This is made amply clear by the statement of the Preparatory Commission that during the period of construction all development schemes (and presumably residual private investment) in the Gold Coast will be trimmed to permit 'smooth' execution of the Volta scheme. We shall see presently the sinister implications of this statement, innocuous as it sounds.

We are thus left with the inescapable conclusion that, apart from the indirect stimulating effect, the whole of the advantage of the operation will have to be found in the financial results of the smelter. The output at current prices will be, at full production, some £35m.–£40m. per annum. Of this some £15m. represents interest and an adequate depreciation policy will demand perhaps some £3m. more. There will be an additional unknown cost of material for maintenance, and so on. If the wage and salary cost is reckoned at, say, £5m. (rather generous), there remains a gross profit beyond interest on the capital invested of, say, between £12m. and £16m. Out of this, the Gold Coast Government might expect to receive a participation of some £6m.–£8m. plus taxes on some of the wages and salaries paid out. This represents a potential increase in Gold Coast Government revenue for 1954–5 of some 10 per cent. With the collapse of cocoa prices, however, the addition is perhaps as much as 15–18 per cent.

The balance of payments would also benefit by the same amount and, in addition, the whole of the wages paid out (not, of course, by the full £35m.–£40m., the gross value of output, as the Gold Coast investment will not earn more than what it now earns in interest on balances). This represents an even smaller portion of exports, at best some 15 per cent.

The sterling area gain would be equivalent to the saving in dollar imports minus the net profits, after Gold Coast taxes, of Alcoa and the interest on dollar loans. In so far as Britain would have to forgo export of dollar-earning or dollar-saving supplies elsewhere during the construction period, the saving for sterling-area dollar balances would be less. The greater the shortage in the sterling area of materials required for the Volta the less the relief. As the Gold Coast has a large dollar surplus, the increase of its dollar-saving exports would certainly increase its claims for greater latitude in import policy.

Unless the British Government can give more solid assurances than it has been able to lately on the benefits to be gained by the Gold Coast from adherence to the sterling-area pool, the net relief to that pool is likely to be much less.

We see, therefore, that the benefit for the Gold Coast or the sterling area from the Volta scheme is by no means as great as would appear at first glance. But this is not the whole story. This gain is not a net gain. We must therefore investigate the probable magnitude of the indirect cost to the Gold Coast of the Volta scheme as at present contemplated. As we have seen, the Gold Coast Government will have to subscribe or pledge its credit for something like half of the total expenditure contemplated.

What will be the impact on the country? The Preparatory Commission in this respect adopts an extraordinary point of view. It has chosen a method of construction which minimizes the beneficial impact on the Gold Coast. Of the £231·3m.–£309m., only £100m.–£145m. will be constructional expenditure, and not less than two-thirds is to flow abroad (para. 536)! In the Gold Coast, expenditure is to rise slowly from £4·3m. in the first to £7m. in the fifth year (paras. 537–8). The peak labour force for the dam is now estimated at 5,000 and the peak total construction force, including mines and ports and all, at 15,000 (para. 164). The average labour force is below 10,000. The operating force after the completion of construction will be 9,500. This in a population of some 4 million, at the cost of sacrificing most of the country's hard-earned reserves.

This extraordinary 'saving' in expenditure in the Gold Coast is obtained by using mechanical devices of the most modern kind (paras. 158–63). This no doubt makes the project 'less vulnerable' (*sic!*) (para. 152) to wage increases but it also minimizes the impact of the project on the country. Now the argument that the restricted locality and the cost of housing temporary labour necessitates cutting constructional manpower to the minimum (paras 151 and 153) applies at the dam site. But it applies at the dam site only. It does not apply to the public works (including the port) and certainly does not apply at the smelter site. There it would be desirable to increase the labour force as much as possible, and it should subsequently be absorbed by the industrialization programme and the building this necessitates.

It is at this vital point that the basically inappropriate attitude of the Commission reveals itself most clearly. Their effort is concentrated on making aluminium production as profitable as possible

instead of contributing to the maximum development of the Gold Coast. One of the vital tasks of the Volta projects should be to raise the investment capacity of the Gold Coast as much as possible and to help to fuse the three parts of the country together. Instead, the whole policy is to minimize the impact, to reduce the 'strain', i.e. to reduce the need for a maximum increase in physical capacity.

This might possibly be justified if the accumulated reserves and resources of the Gold Coast Government were in no way engaged. In that case, the aluminium companies might try to maximize their own advantage, and the Gold Coast Government might in its turn do its best to increase real wages. But the Gold Coast reserves are indeed engaged, and the Gold Coast Government is expected to shape its own development programmes, not indeed so as to lead to maximum increase in national income including wages, but so as to promote (or rather not to 'interfere' with) the cheapest accomplishment of the Volta project.

I certainly do not mean to imply that an inflationary increase in money and real cost would in the long run be of advantage to the Gold Coast. But my argument does mean that the general plans on manpower of the Preparatory Commission must be severely re-examined from the point of view of maximum advantage for the people of the Gold Coast, from the point of view of increasing productivity (and income) as much as possible in the Gold Coast. It means that use of an undue amount of mechanical devices in order deliberately to avoid using Gold Coast manpower and lessen the chances of training and education is a wholly wrong approach.

It also means that, while the recommendation of the Commission to push on with maximum expansion of power production because of the large-scale saving in cost should be accepted, it by no means follows that all that power should be allocated to aluminium production. The cost of the smelter is more or less proportionate to output (para. 520). It may well be that it is found that the saving in the railway cost from the mine is not sufficient to offset the advantages of having more power for industrial use (e.g. fertilizers or heavy water) or irrigation. The fact that already there is talk about generating electricity at Bui, which would cost up to 300 per cent. more than the Volta, and that the extension of the Tema thermal power station and of other non-hydro schemes is pursued, indicates an urgent need for investigation.

The Gold Coast Government would do well if it made a searching

inquiry. This would be essential especially if the aluminium companies, as reported, are making exorbitant demands such as permission to use Jamaican bauxite or obtain subsidized power. From the point of view of the Gold Coast, the failure of the Preparatory Commission to take these possibilities into account not merely reduces the value of its work considerably but creates a situation of artificial bargaining strength for the companies.

Unfortunately, neither the last set of development plans nor those which seem to be under consideration at the moment are of a nature to create confidence in the capacity of the permanent advisers of the Gold Coast Government on these matters. Thus, it may well pay the Gold Coast to put off final decision on the Volta project until the accomplishment of independence has made a freer choice in experts possible. Merely in order to be able to negotiate with the aluminium companies on something like equal terms, this preparatory work is essential.

This ends the discussion of the general economic implications of the Volta scheme to the Gold Coast. I now turn to the specific problem of the treatment by the Preparatory Commission of the Volta scheme as such. The Preparatory Commission was established in 1952, with these duties:

(i) In conjunction with the Gold Coast Government to determine the phrasing of the project with other Gold Coast development projects in the light of the available resources of the Gold Coast economy including the adequacy of the government services.

(ii) To take part in the determination of the constitution and powers of the Volta River Authority.

(iii) To continue the development of the necessary preparatory work with the assistance of such staff as the aluminium companies can make available.

(iv) To take part in the preparation of a Master Agreement.

So it was mainly on the legal and general economic questions that the terms of reference concentrated.

Instead of following these instructions in a workmanlike fashion, severely restricting themselves to these issues, and reporting with the least delay, the Commission roamed over a wide field and had the work of the consulting engineers and accountants duplicated. What are the results?

In the first place, the incomprehensible publication of the consulting engineer's report on detailed cost estimates will substantially

reduce the chances of acute competition. Yet the surprise occasioned by some of the Kariba bids shows that competition can still substantially reduce cost.

In the second place, even this four years' delay has not cleared up vital problems: the Commission works on the basis of a 55 in. evaporation, but apparently most experts consider 65 in. more likely.

Last but not least, the Commission was unable to narrow the range of uncertainty in the cost estimates and, as the jejeune phrasing of paragraph 514 shows, this ought to have been clear in the first instance. Even now the extreme disparity of the cost of electricity per unit shows it as between 0·139 and 0·361 pence, i.e. some 260 per cent. difference. There were apparently similar uncertainties about the volume of bauxite needed for smelting.

Efforts devoted to the further elaboration *in vacuo* of the profitability and consequences of the scheme thus seem to have been futile. Neither the consulting engineers nor the accountants responsible for the previous reports have been changed. The risk and uncertainty has hardly been narrowed. It still is, as we see, at least 100 per cent. In the meantime, in North America, aluminium production capacity of more than 1m. tons has either been commissioned or is under construction. So the specific risk attaching to the Volta has increased. There was, moreover, even in the US, a general rise in producer goods prices of 10 per cent., which could have been partly avoided by an earlier start, and of constructional material prices of roughly the same proportion. The UK price rise was slightly higher. What is more serious, and accounts for a greater increase in the cost, is the rise in the rate of interest which was easier to avoid. Finally, there was some rise in the estimated construction costs apart from the general rise in interest rates. On the other hand, aluminium prices rose by rather more. Thus the profitability of the scheme still seems not unduly affected. This was to be expected, as aluminium, after all, is one of the most closely controlled prices in the world, and the exhaustion of cheap-power sites would have an immediate effect.

What stands out is the fact that the ease of decision-making has not been increased by the delay. It could be argued, however, that the sociological and health investigations alone might justify it. On that point an outside economist must not be dogmatic. But he is permitted to wonder. This scheme is, after all, not unprecedented. The Owen Dam, the Aswan Dam, and many others have been built. No doubt all the inquiries that have been made should have been made. But

did they have to be made before the scheme started? After all, the most basic of the problems affecting the 'human factor' is surely the 'philosophy' (as no doubt the American sociologists would call it) according to which all effort must be concentrated to prevent the scheme from having any impact in the Gold Coast – except for the privileged few actually employed. Because that is what is the truth behind all the slogans about avoiding inflation. One wonders whether a little more imagination would not have gone further to ensure the enthusiastic collaboration of the people of the Gold Coast than the well-meant, but rather peculiar, sociological faddiness combined with an incongruous Treasury orthodoxy.

I conclude by expressing the hope that this last delay will be used to the full by the Gold Coast Government to buttress its position in what promises to be awkward and difficult negotiations. The work of the Preparatory Commission has not provided the much-needed firm basis on which a stand can be made with the confidence that the interests of the people of the Gold Coast will be as fully safeguarded as humanly possible. A new attitude and real expert knowledge are needed.

Ghana

The present chapter on Ghana is one among a number ('Time and the Volta', *West Africa* 1955; 'Eyeless in Ghana', *Venture* March 1957; 'Anti-Climax on the Volta', ibid. Christmas 1956) written on the preparation for independence of the then Gold Coast Colony. The story is as illuminating as it is disheartening. My lament was caused not so much because of the trend towards the one-party state after independence. This seemed to me inevitable in poor countries; investment could not possibly have been increased sufficiently to put the country firmly on the road to progress if there had been a popularity-chasing opposition soliciting uninstructed voters with fatal promises. The terrible story of Turkish failures should be a warning in this respect. Uneasiness ought to have been generated by the blatant failures of economic policy-making and remedial action sought. It is, perhaps, arguable that the failures of the last stages of Colonial régime led to, if they did not cause, those of independence.

In the first place the extremely favourable position of the country

after the war due to high cocoa prices was not exploited for accelerated development. The Bank of England (as in most other colonial territories) defended the Currency Commission system which hamstrung the Colonial Government. When at long last (and in Ghana under foreign sponsorship) a Central Bank was created, the greatest possible pressure was exerted, again as in most other dependencies, to make it as ineffectual as possible (cf. 'Eyeless in Ghana'). The so-called development plans were nothing more than unco-ordinated jumbles of departmental projects. While an extraordinarily wasteful university was created, blessed with high tables, college accoutrements, caps, gowns, scouts *et al.*, technical and rural education was neglected and technical services in the bureaucracy duly despised and underpaid. There was at first no professor of economics (and still no professor of statistics). But Latin was extolled.

The Volta scheme was a victim of this approach. I warned ('Time and the Volta', op. cit.) that the delays were endangering the scheme. As it turned out these delays were not even the sign of careful study: as it turned out the dam could be built at a fraction of the original estimate by changing its location and structure. Nor it is questionable now that my misgivings about the obsessive concentration on aluminium production, which could only provide a small amount of employment at high wages, were justified.

It may be that it was the hesitations and delays of the Colonial régime, and its neglect of producers' co-operatives, which in the end created the atmosphere of headlong hurry, the ordering of unsuitable industries for unsuitable locations and the prestige investment in aircraft and parade-grounds which now so excite condemnation and which undoubtedly contributed to the balance of payments crisis. It was the complete unresponsiveness of Lagon University which led to attempts to cure the ills by changes in personnel and doctrine.

CHAPTER SEVENTEEN

Jamaican Future

Introductory and General Conclusions

The record of the Jamaican economy over the last ten years, but more especially since 1956, has been remarkable. Apart from Japan and Puerto Rico it is certainly unparalleled in any of the less developed areas of the world. Not only did *per capita* income approximately double in the decade but, and what is most impressive, gross fixed capital investment in terms of the gross national product increased from 9 per cent. in 1950 to well over 20 per cent. in 1956, and has remained above that critical level ever since. While foreign capital has been responsible for an appreciable part of this increase, especially in bauxite and also in tourism, the rise of domestic capital formation has also been most impressive: from 8 per cent. in 1953 to over 12 per cent. in 1959. This increase has been identical to that postulated, but unfortunately not achieved, by the second five-year plan of India, the boldness of which was so favourably commented upon everywhere. Jamaica can certainly be proud of the progress accomplished.

This proud trend is only marred by the undeniable increase in inequality in the island, despite the efforts of the government. The income in agriculture has hardly increased – the production of food seems to have actually declined. The problems of the small farmer are especially acute, though the extensive and costly Farm Development and Settlement Schemes were directed precisely at the relief of this sector. In the urban scene, too, the share of wages has diminished, while total company profits have increased. Within the wage sector, the discrepancy between the earnings of the skilled workers in the organized trades and the rest have also shown striking increase. While unemployment has been reduced, it remains a grave problem. This increase in inequality might explain, at least partially, the less

than complete economic psychological impact of the magnificent economic record of the Government of Jamaica.

The basic principles of the new ten-year plan are therefore admirably achieved. They can be said to follow logically from the record of the remarkable performance of the Jamaican economy and are calculated to eradicate its blemishes. The Plan provides for a cumulative increase in the national income by 7·5 per cent. annually. Accepting the present rate of increase in population, this would give in *per capita* terms a rise of 5 per cent. per annum. Having regard to the general outlook in the world, the plan prudently and rightly shifts the emphasis from mining and tourism as the main propellent sectors towards activities which generally can be characterized as import substitution, though export creation would continue to be an important feature of the plan. Accordingly, food production and the expansion of manufacturing activity are the pivotal expansion points, being supported by adequate infrastructure investments.

Two problems, intimately interrelated, arise in this context and will decisively influence the success of the endeavours to absorb a much larger part of the population in the 'modern' industrial sector, on which the equalization of income through upgrading of the less privileged depends. The existing organization of trade and manufacture (in that order of importance) seems to encourage monopoly and, through monopoly, excessive profits, and inefficiency. Effective action will have to be taken immediately to reverse this trend, while windfall or monopoly profits should be dealt with through appropriate tax-legislation. Efficient and competitive enterprise will have to be permitted to earn adequate remuneration. Once the problem of windfall and monopoly profits has been tackled, the moral basis will have been created to obtain the collaboration of trade unions for a purposive incomes policy calculated to decrease inequality and prevent such increase in costs as would hamper the expansion of modern manufacture.

The Plan, with due political insight, assigns high priority to investment in social services and what might be termed 'infrastructure investment'.

There is no possible disagreement about the need to put greater emphasis on counteracting the tendency toward greater inequality resulting from the process of economic development in the framework of a democratic system working through individual decentralized enterprise. The problem is one of method. The failure of an even

increase in incomes in all sectors is due to the failure of the majority of the agricultural population to participate in the expansion of production and the failure of a large number of people to find employment. This does not mean, however, that the answer can necessarily be found in increasing social overhead expenditure or other quasi-welfare measures. A large part of the population cannot permanently be put on relief because, if for no other reason, the strain of this expenditure will diminish the government's capacity to help in creating new jobs in the non-agricultural sector. What is needed is a new approach to increasing the income-earning equality and willingness of the agricultural population. It is not accurate to assert that intensive agriculture could not provide more jobs at increasing income. It is the tacit acceptance of an unchanged agricultural production system and land-tenure system which is at fault. It is unlikely that measures aimed at solving the problem of the small peasant and inequality of rural income would also lead to the increase in food production that is urgently required in the short term. The confusion of these two aims is responsible for the failure of the efforts to increase food production. This failure menaces the Plan. The problem of the small farmer can only be tackled by a reform of rural education.

Nor is the implicit assumption, that the consequences of the ever-increasing birthrate could not deliberately be mitigated, justifiable. Jamaica is almost alone as a country where a violent increase in the national income was followed by an almost as violent increase in births, while mortality was falling rapidly. Far too little effort has been made to explain to the population the fatal consequences to their balanced well-being and social stability of the strain caused by the increase in numbers. Expenditure both recurrent and capital on social capital, housing, schools, hospitals, will mount continuously. It will be difficult to catch up with the backlog, and mitigate the misery of people. There is ample evidence from careful inquiries that no resentment need be expected from the majority of the people and that good co-operation would likely be forthcoming once the problem and its implications were fully understood. As much as one-third of the total investment and a considerable portion of the tax revenue would be available for the purpose of increasing the standard of life if the increase in the population could be curbed. Thus, instead of having to provide more houses, schools, and hospitals, better facilities would be provided. This factor will rapidly increase in importance, and I would be failing in my duty if I did not call attention to it and suggest

energetic action. Accordingly, I assume that in the investment projections there is a considerable reserve which disregards the possibility of slowing down the increase in the population. For reasons which are too technical to be discussed here, I feel that these reserves will be fully needed to cover possible, indeed probable, shortfalls in the income-generating effect of investment.[1]

The conception of the changed pattern of industrial development is sound, because the twin factors of growing invisible (tourist and emigrants' remittances) and mining exports could not possibly carry the burden of the increase in imports due to the contemplated expansion of income. However, I am bound to stress the importance for the shape of the ten-year plan and its success of relations with the US and, to some extent also, with the UK. In the first place, because the question of emigration will continue to dominate the economic scene it reduces the need for investment which even in the best possible circumstances will strain to the utmost available resources. Emigrants' remittances have played and might play a decisive role in balancing marginal needs for foreign exchange. Secondly the creation of new export outlets for relatively labour-intensive manufacture – on the example of Puerto Rico – would create completely new horizons and still certain doubts about the feasibility of continued progress.

The plan for education still seems to be in great need of harmonization with the concepts of social and economic equality and prosperity which animate the Plan. It would be tragic if the present attitude of neglect of technical and vocational training in favour of 'classical' education, which menaces the success of the Plan, could not be changed and provision made for adequate and relevant educational facilities. Investment in education is not enough. It must be investment in the right kind of education.

The contribution of financial and monetary policy for the success of the Plan will depend on the effectiveness with which unnecessary consumption can be discouraged in favour of saving and investment, while full use of resources is fostered, and the need for legitimate remuneration for risk-taking accepted. Certain reforms of the taxation system seem appropriate.

It stands to reason that with independence Jamaica will have to take further steps in the monetary field which will allow a full mobili-

[1] This, usually termed the capital-output ratio, is assumed to be as 1 to 2·5. The demonstration of the choice of this ratio is not altogether convincing.

zation of resources and remove the threat of unnecessarily brusque action in the case of adverse capital movements.

The Plan is soundly conceived in its fundamentals and based on a modern approach to economic problems both theoretically and also in its use of statistical material which is unusually advanced in comparison with other territories of similar historical background.

In what follows I shall try to discuss at greater length such problems as I suspect will arise in consequence of the Plan.

Executive Co-ordination

The conception of a deliberate plan for accelerating economic progress and stretching over a period of more than the budgetary and accounting year is completely contrary to the administrative traditions of Britain which have been indelibly impressed upon the territories of which she was in charge. Yearly budgets and a passive regulationary attitude towards economic matters was in order. Collective Cabinet responsibility and parliamentary democracy do not encourage, and are in some ways incompatible with, deliberate planning.

The presidential system is in many respects far more serviceable to a country in the first stages of her development. The various departments of State are subordinate to and adjuncts of the President. Machinery can (as the US has shown) easily be created to assemble, digest, and modify the proposals which his subordinates in the various departments make to him as head of the State and the executive. Thus the relationship between the ingredients of the Plan and the Plan as it is developed is quite clear.

It is obvious from the quality of the Plan that Jamaica has gone a long way in adapting her governmental mechanism to the new requirements of economic development planning. Some further measures are, however, essential. The relation between physical and financial aspects of the Plan must receive continuous and close attention. It will not do for individual departments to regard the parts of the Plan dealing with 'their' field as 'their own', over which no one else has any right. The Plan is the responsibility of the government as a whole.

The Role of Agriculture

The success achieved in economic development in Jamaica has its most important impact on the role of agriculture in the continuation of progress. In sharp contrast to the past decade, agricultural progress will represent a decisive condition of the future of Jamaican advance. If the sluggishness and retrogression of agriculture which seems to have been such a regrettable feature of Jamaican economic history since 1950 cannot be overcome, inflationary pressures leading to a balance-of-payments crisis will hardly be avoided. This will force Jamaica (as India and Ghana and so many Latin American countries have been forced) to a slowing-down or abandonment of the growth targets. The psychological consequences might be incalculable. *Agricultural advance must receive first priority in any sensible plan for Jamaica.*

It would not be true to say that agriculture has been neglected in Jamaica. Indeed, a large part of the government's efforts has gone into agriculture. This is in a way the most disquieting feature of the situation: there is no assurance that a key to a change for the better can be found. Certainly, there is nothing in the new agricultural programme which could give confidence to an objective observer that it will succeed better than its predecessors.

The basic philosophy, the method of approach, remains the same. The new programme seems to pay little attention to the careful evaluation of the original Farm Development Scheme which has been undertaken by Professor Kruijer. And while he was right in emphasizing that the Farm Development Scheme must not be judged *entirely* from its success (or the lack of it) in increasing production, it should be said quite plainly that an *increase in production is the most important criterion of its success.*

It is absolutely essential that food production should increase if Jamaican progress is to continue. From this point of view, the strenuous efforts made so far have not achieved much if anything.

Nor is the threat of an economic disaster the only implication of the failure of agriculture. The discrepancy between rural farmers' and urban industrial incomes, shocking as it is already is growing.[2] Thus

[2] Fifty per cent. of the population of the island is engaged in agriculture, while agriculture contributes only 13 per cent. of total output in money terms. In addition, agricultural income distribution is as unequal as in almost all the Caribbean and Latin American countries: 5 per cent. of the farmers accounting for 60 per cent of the acreage, while 83 per cent. of the farmers account for less than a quarter of the total income.

the social and political implications of a continued agricultural failure would be as serious as its economic consequences. Apart from anything else, no relief could be hoped for from the oppressive increase in birthrate which imperils all efforts and blights all hopes for a better future, because the birthrate in the rural areas and among the rural displaced persons in the urban districts tends to be higher than among the more prosperous.

I am convinced that *alternative proposals* can be elaborated. They will, I think, involve a change toward intensive mixed farming, dairying, meat production, the production of fruit and vegetables and of rice. I believe that Jamaican prosperity depends on being able to pursue this aim on the basis of medium-sized commercial units – say 2,000–4,000 acres – owned in co-operative form eventually by those who work in them, and scientifically managed.

It is quite obvious to me that the approach in the former British territories to the problems of tropical agriculture has been biased, and biased in an unfortunate fashion, towards export crops to the detriment of research into the methods and possibilities of promoting high productivity through a balanced mixed farming producing food especially for domestic consumption. I distrust this bias and believe that effective action must be taken to counteract it now that Jamaica is going to be independent.

There can be no doubt that the fundamental reason for Jamaican agricultural backwardness and stagnation is the lack of education. The population census of 1960 revealed that over three-quarters of the population was residing in the rural areas and 50 per cent. of the working population was engaged in agriculture. Almost 40 per cent. of the rural population of ten years and over has received less than four years' education. School attendance is patchy and falls off sharply at the end of the school-age.

In the short run, very little can be done to remedy this backlog of ages of colonial neglect. At the moment, a very large portion of domestic food crops is produced by small farmers. It is all but impossible, as has been demonstrated, to introduce drastic reforms in their way of life and production. While there is no doubt that the unequal distribution of land-ownership will necessitate drastic reforms, it is equally obvious that such reforms, if they were to take the form of the time-honoured land-settlement method of cutting up estates, would result in a catastrophic lowering in production levels and stifle all hopes for development.

Once the broad lines of the change in cropping patterns have been established, a double attack will have to be made on the problem. One will have to concentrate on the short-term need to increase production, the other on the long-run changes which in time will not merely result in increased production but also enable a better distribution of national *and* rural incomes. In my view, the trouble about the past and present conception of agricultural policy was and remains an illogical mixing of these two distinct aims. In consequence, the considerable effort at increasing production has been concentrated on (and dissipated by the unresponsiveness of) the small farmer, trying to persuade him, without the appropriate educational substructure, to change his way of life and approach. It had to fail.

In the *short run*, main reliance will have to be placed on the larger farms to initiate reforms in their production methods. In order to encourage this, the land tax ought to be suitably modified to enforce more productive use of available land.

This is not to say that the smaller farmer should be entirely disregarded in the short run (especially if the higgler members of his family could be persuaded to add their work to increasing production). But the effort to persuade and inform him should be a part of a longer-term plan to provide a secure educational foundation for a general advance. It would be futile to continue to attempt to get him to change his way of life without this fundamental effort mainly directed at the younger generation which is capable of change.

At the same time, agricultural marketing will have to be reorganized. FAO has made a report, and an official committee is seized with this problem. Therefore I would only like to stress the need for an open mind and willingness to envisage rather radical changes based on a State-managed marketing organization guaranteeing a market. Possibly efforts should be made to interest large firms with experience in this field – such as Marks and Spencer – in taking a hand. Safe profits could be made by a really efficient organization (or the farmers' income increased).

In addition to the short-term programme of encouraging larger farms to contribute their full share of food production, medium-sized State-sponsored units may be established under the Agricultural Development Corporation for the production of meat and dairy products, fruit and vegetables. This is obviously to be paralleled by efforts at restoring an effective marketing organization. Extreme care should be taken in choosing managers, because any failure at com-

mercial production would discredit the idea of large-scale production, and this would be fatal for the future of the island. Commercial market-garden and beef-cattle managers should be hired, the former preferably from Japan, but also from the US and elsewhere. Japanese small-market-garden settlement might also be encouraged. It has had striking results in Brazil.

The long-run programme must be evolved in conjunction with the *reform of agricultural education*. A beginning might possibly be made by an effort at rehabilitating some of the derelict lands of up to twenty-five acres in the hands of farmers. For this purpose, and in picked areas, commercial agricultural joint-stock companies might be formed, the shares of which could be issued to the owners of the derelict land. Management of the rehabilitation should be put under State auspices with the rural public works to execute it. As much as is possible, small peasants might be given work on a wage basis. The wages might be kept low as the participants would in the medium short run benefit by increases in the yield of these properties.

In the longer run, when the agricultural education reform has had some impact, such medium-sized agricultural units could be formed on the basis of general land-reform programmes.

In the long run, land reform will prove inescapable, socially and economically. It is hoped that it will be undertaken before agitation is renewed to cut up estates, for otherwise the outlook for Jamaica is grim indeed. A timely land-reform programme must be undertaken in the most flexible manner so as not to destroy confidence of the present owners and managers, whose work is needed for some time to come and who might have a permanent rôle to play in the new dispensation if good relations are preserved.

Properties could be leased to the present owners on terms which would cover the servicing of the compensation and no more, until agriculture can be organized on a new basis. The lease should be a rather long-term one in estates where production is satisfactory. Where production is not satisfactory, discussions might be started between the Ministry, the Agricultural Development Corporation, and the owners about possible improvements. If these are satisfactorily put through, longer-term leases could again be negotiated.

Where such reform cannot be obtained, and progressively as the management capacity of the quasi-State or organization improves, estates would be taken over and organized as joint-stock companies,

the management of which would be vested in the Ministry or the ADC or some new organ.

As education advances and the workers acquire new habits the shares might be progressively handed over to the managers and workers, the State retaining the right to terminate the lease and to reorganize the company in the case of non-compliance with sound management principles. In no case should the present policy of settlement be continued. It creates inefficient units and, by giving freehold, forgoes all possibility of improvement.

The need for, and possibilities of, improvements in food production can hardly be overstated. In a large part of Jamaica, even in the larger estates, farming is carried on in a traditional manner with no reference to recent improvements in techniques. The farmers have little if any incentive to improve their methods, because of the structure of marketing organizations. They also lack technical know-how and capital. Over-ambitious plans which try to tackle the problem of the farmer before educational progress has enabled him to 'absorb' technical knowledge are found to fail.

A careful time sequence has to be worked out. Centres of growth must be created where rapid success can be achieved and used as propaganda to broaden the sweep of the advance.

The Role of Industrialization

One of the most striking changes contemplated in the pattern of economic expansion under the new ten-year plan as compared with the record achieved previously is that of the role of manufacturing. While the percentage contribution of manufacturing had remained virtually unchanged between 1950 and 1958 and appears to have slightly decreased until 1960, it is scheduled for an increase from 10 per cent. in 1960 to 14·5 per cent. in 1971. It is especially the contribution of the heavier industry which is to increase by roughly 15 per cent. per annum, while the rest of the manufacturing sections are to increase by only between 7 per cent and 10 per cent. per annum.

The change in emphasis can be illustrated also by comparing the development of mining and manufacturing industry. During the 1950's, mining advanced about as much as manufacturing, increasing its share of the national income from a negligible amount to over 8 per cent. in 1958 and remaining at that level until 1960. In the new

dispensation, however, the rôle of mining is to be reduced to 7 per cent.[3] The implications of this on the balance of payments are of course obvious. It was mining and invisible exports which made Jamaican development possible.

This conception of economic development is by no means impossible to execute. It has been paralleled if not surpassed by Puerto Rico. It implies, of course, a very drastic policy of import substitution. The fact that construction, which is the main end user of the products of the heavier manufacturing sector (inasmuch as they are not exported), is to increase by only 13 per cent. per annum shows the drastic extent to which import substitution is tacitly implied in the Plan.

It is absolutely essential to consider most carefully the technico-economic relationship between manufacturing expansion and final demand in trying to help and direct the execution of the Plan. This relationship has been largely neglected in Jamaica. The present lack of close co-ordination, the lack of adequate personnel, and that of positive policy will, unless speedily remedied, inevitably result in failure.

It is clear that the main propellent force must be provided by manufacture if the Plan is to succeed. Moreover, either through export creation or by import substitution, the manufacturing sector must also carry an appreciable part of the strain on the balance of payments which will inevitably ensue. This was not the case in the 1950's.

Thus either means must be found to increase the productivity of Jamaican domestic industry or the standard of life will be menaced. This menace will express itself in price increases as a result of import substitution and in the inability to promote exports at the present level of wages. Either will result in a strain on the balance of payments. Moreover, an increase in prices might in the present social organization of Jamaica result in a wage-inflationary pressure, as privileged trade unions try to maintain real wages. The consequences would be fatal to the maintenance of a steady expansion. *These considerations make it absolutely clear that the increase in the productivity of domestic industry is an essential condition of the success of the Plan.*

[3] I feel strongly, however, that the time has come to have a closer look at the agreements with the bauxite companies, and especially the American ones, to ensure an increase in their contribution. The US firms especially ought to be pressed to process their bauxite into alumina. This would increase employment and revenue.

This will necessitate a drastic revision of the present approach to industrialization, both in planning and supervision.

It would seem essential to increase the market outlets found for labour-intensive Jamaican industry. Otherwise, at least in a transition period (while efficiency is being increased), some strain will be experienced even in maintaining present urban standards of living. If the population increase should accelerate, i.e. if emigration cannot be increased, such strain would be a virtual certainty. It is essential to bring these facts home to the Jamaican people.

These considerations suggest a most urgent need for reorganizing and reorienting policy making and execution in the field of industrial development. This implies, on the one hand, recasting of the role of the various development organs and enabling them to influence actively the course of industrialization. On the other hand, a new organ will have to be created to see that the opportunities created are not wasted through profiteering at the expense of the community.

The encouragement of industrial development. The increase of output towards £70m. per annum in manufacturing will require tremendous effort. In the final years, something like between £20m. and £30m. will have to be found in new capital beyond ploughed-back profits and depreciation (mainly by manufacturing companies).

This is by no means impossible – Puerto Rico in the past few years has achieved it. The ten-year plan recognizes, however, mainly on the basis of the Puerto Rican experience, that a change in tactics in attracting industry is needed. As the Puerto Rican Government put it, 'net fishing' must give way to 'spear fishing'. Instead of trying to attract industry in general by tax concessions, by reducing the need for fixed investments through the provision of factories, i.e. through measures which do not differentiate between various industries, the new and far larger scale operation will necessitate positive search for suitable industry, persuasion of selected firms of the desirability of their establishing factories here, and so on. Even if some new access to prosperous markets could be secured, the problem would still be a very difficult one. As it is, it will tax Jamaican resources to the utmost.

It should be said, moreover, that whereas net fishing is based on broad sweeps, spear fishing poses a very different requirement. If you direct your spear into the void, you will not very likely get a fish. In order to direct the spear correctly, however, great expertise is needed.

The need for reinforcing the various organs responsible for development must be stressed. The bottleneck is still primarily in skilled manpower and creative leadership.

The shift towards import substitution inevitably implies a shift towards mechanical industries and assembly. Thus a completely new type of know-how will be required. A determined effort must be made (possibly with the help of ICA) to recruit foreign experts and train Jamaicans.

Unless export markets can be secured to sustain large enough production units, manufacturing is likely to remain less efficient in this country than in other areas. Meanwhile, the imports of intermediate products will increase. Unfortunately, however, it is difficult to secure export markets without having a sufficiently large home market. Thus a very awkward 'hen and the egg' question arises. You cannot have an efficient industry because you have not got an export market, and because you cannot have an efficient industry you cannot plan for an export market.

This dilemma was resolved for Puerto Rico by its free entry into the US market. A known export market was created, provided wages could be kept relatively low. The problem for Jamaica is far more complicated as matters now stand. It will necessitate a far more intensive effort and restraint on the part of the workers and a far higher degree of managerial ability despite the fact that wages are very much lower. It will also necessitate a careful scrutiny of proposals to establish industry in the island. The premature establishment of inefficient small-scale units needing high protection must be resisted as incompatible with the long-run prosperity of the country.

It is absolutely essential that the Agricultural and Industrial Development Corporations and the Development Finance Corporation should work closely together and should be able to participate in new companies. Neither the current nor the capital provisions for the ten-year plan approach real needs. An increase in the capital of the Development Finance Corporation to something like £10m. and in the resources of the other corporations must urgently be considered.

The present rather passive attitude of the authorities towards fostering industrial growth is incompatible with success of the ten-year plan.

Company Law. It is also essential to provide the legal framework in which investors can have confidence that tricksters will not do away

with their savings. An up-to-date company law has been on the stocks for some time. It should be speedily looked at from the viewpoint of its suitability for American investors, as US capital will have to be attracted and might be more easily available if it had to work on the basis of known rules. It should be passed into law preferably before independence raises new problems.

Once due supervision can be exercised over the issue of securities, the time will have come to promote the establishment of a market on which they can be sold. This will increase the liquidity of Jamaican assets, and thus attract the participation of organized financial capital (e.g. insurance companies) in the expansion of investment.

Monopoly. Even a cursory inspection of prices and goods leads one to suspect that a certain number of interests, especially in importing and wholesaling, have grown to such power as to menace the viability of the Jamaican economy. Tacit or explicit collusion seems also rife. By charging extraordinary profit margins at a number of consecutive stages of the merchandizing process from the producer to the consumer, they do not only secure unduly high incomes for themselves; at the same time they seem to have encouraged industrial inefficiency and indeed made it profitable. This is shown clearly by the inquiry into the textile industry and trade. Situations analogous to textiles could no doubt be found in many other industries. Price-control measures were discontinued before it was clear that competition would be effective in keeping trade margins down at legitimate levels.

The continuation of this stage of affairs precludes successful economic development. It threatens monetary stability. It is futile to hope to alter it by indirect means. The regulation of prices or lowering of protection might not, under the present system of merchandizing and credit, produce the required result.[4] A combined financial and direct attack is in order.

[4] One of the possible ways in which a more competitive attitude might be promoted, in fact, might be to permit foreign firms now producing for export to highly competitive markets to enter the Jamaican market provided they agree to forego their extraordinary privileges as export firms. While in most cases, probably, it would not pay them, in the case of some branches of industry (e.g. textiles), it may well be possible to induce them to utilize their know-how in Jamaica in this way. The fact that such firms are able to export to these markets show that it is not the inefficiency of Jamaican labour which is the main cause of the unsatisfactory state of domestic markets.

Suggestions for an excess-profits tax on monopoly profits are outlined below (see p. 315).

In addition to this safeguard, and in conjunction with its administration, a *monopoly commission* ought to be formed consisting of a majority of non-legal persons versed in economics. The Minister, as in England, could refer to this commission cases of suspected monopoly restrictions. It is essential that they should be given quasi-judicial power to be able to enforce the production of books and to be able to take depositions on oath. Either the commission or some other government organ must be given powers to impose price control in case of need. The staff of the commission should provide the statistical basis for an effective administration.

It may be said that such a commission would deter foreign firms from coming to Jamaica. I feel that, on the whole, foreign firms have proved not merely efficient but also rather competitive. It must not be forgotten, moreover, that American firms are accustomed to the existence of such an organ. The Inter-State Commerce Commission, the Federal Trade Commission, and the Department of Justice have powers for analogous inquiries in Puerto Rico without having deterred the industrial development of that country, In fact, an elimination of the sort of monopoly hindrance that exists now in Jamaica would probably encourage rather than deter industrial progress. There is always a dilemma between encouraging enterprises through high profits and avoiding conditions in which continuous wage-struggles ensue. A common-sense approach by the Monopoly Commission should be able to deal with it.

The strict enforcement of antimonopoly rules is essential from another view point. As we shall argue, restraint on the part of labour is absolutely essential if industrialization is to proceed cumulatively as it is expected under the ten-year plan. Such restraint, however, is politically impossible and morally unjustifiable if it is to be used by restrictive vested interests to increase their profit margins and thus completely frustrate the purpose of the restraint by trade unions.

We have already pointed to the new aspect of industrial development, i.e. large-scale import substitution. This will, in any case, be difficult. Until now, the new industries established in Jamaica, such as textiles, were sufficiently large to sustain efficient units. This, as I have argued, will no longer be the case, and export markets will have to be found to complement the domestic outlets. If, in addition to the inevitable difficulties of the new programme, monopoly restriction

continued, such expansion of sales will become well nigh impossible because there will be a large increase in price. Under the circumstances, this would inevitably lead to a cumulative wage demand and to collapse of the effort at industrialization, and might possibly menace the currency.

I feel therefore that the establishment of a Monopoly Commission and a reorganization of the organs concerned with industrial development are necessary though not sufficient conditions of the success of the ten-year plan.

The Need for and Means of a Wage Policy

The grand design of the ten-year plan rests squarely on the assumption that a growing portion of the total labour force will be absorbed by the modern manufacturing sector, while at the same time the productivity of agriculture will also be increased. This design presuppoes a very sharp import substitution as well as the development of manufacture for exports.

The most important conditions for either to be successful, and for the standard of life of the masses not to suffer in the process, are a prodigious increase in the productivity of labour and the acceptance of some need for restraint on the wages of those who are already well above the average commercial income levels.

There has been no such restraint in the past. Jamaica is one of the countries where inequality of remuneration is very sharp and still increasing. At the same time, while the government's achievements in reducing unemployment from an estimated 120,000 in August 1957 to 92,000 in August 1961 is prodigious, that figure still presents a terrible challenge. Unless wage restraint can be exercised its reduction will be made much more difficult.

Certain features of the economic structure have not only made this discrepancy between remuneration of various classes of the community uneven but render the mitigation of inequality extremely difficult economically and, in the short run, and viewed superficially, extremely invidious socially.

The two-nation economy which exists today in Jamaica is a general phenomenon. There is hardly a less developed area in the world which has escaped this particular social evil. It is based in the main, and traditionally, on the extreme inequality in land ownership due to colonial conquests, and confirmed by the slave trade, and on the need

for the colonial power to obtain the services of its own nationals for government administration far away from home and originally in some conditions of danger. The desire of the absentee landowners to recruit people to supervise their estates continued the trend. The rise of mercantile classes to cater for the needs of the elite completed the structure.

In Jamaica, this structure has been further broadened and accentuated by the fact that her exports were of high value, i.e. able to maintain a rather broad stratum of land ownership at high rates of income and, since the end of the war, by the rise of an extremely high-value mining industry and the development of the tourist trade into a large-scale industry.

Thus the so-called modern sector in Jamaica is rather larger than in most less developed areas in the world (this accounts for Jamaica's relatively high average *per capita* income), despite the poverty of the unemployed and the small peasant. It is also, because of the small size of the island, more geographically pervasive than is generally the case.

Two consequences follow, both of which are prejudicial to the ordered industrialization of the island, while at the same time they cause peculiarly disagreeable and intractable social problems.

The first is that, while the continuation of inequality is intolerable, there might be *acute hardship* at the margin if efforts are made to mitigate the discrepancy by a scaling-down of the income of the privileged. The cost of living in the cities has adjusted itself to the modern 'rich' sector of the economy. Pervasive monopoly has exaggerated the tendency to high prices. Thus unemployment bears more heavily on the depressed than it otherwise would, because of the high cost of urban existence. Hence the critical condition in the poorer sections of Kingston. Taxation measures and income policy in general must be carefully framed so as not to exacerbate unnecessarily the problems of those whom they affect.

The second consequence is that there is a strong incentive for trade unions to press for wage increases. Inasmuch as the distribution of income is very unequal, and, in particular, there is a strong tendency to monopoly in industry and trade, it is difficult to resist this pressure morally, and politically it is even less possible to provide safeguards. The accumulation of wealth is so obvious that admonitions for restraint to workers must evoke sceptical hostility. They will find no response, however necessary such restraint would be for the true

prosperity of the workers themselves. And, objectively, restraint on wages alone is not enough.

The difficulties in the way of a solution are increased by the fact that the two-party system in Jamaica has produced a tendency towards strong political appeals to the electorate for support, accompanied by promises which are not always compatible with the policy the party in question is proudly proclaiming for national progress. This division has also transferred itself to the trade union level. *Thus appeals for restraint by one particular union are likely to be opposed by counter-suggestions promising instant benefits.* No one cares to suffer from such a loss in authority as this would mean: hence the population is not aware of the facts of the situation.

I feel that this problem will have to be tackled openly if the ten-year plan is to succeed. Fortunately, five years is a long span, long enough to prove the worth of a policy. Strong initiative coming at the start of a five-year period of undisturbed government might possibly be practicable and might well prove itself to the electorate and the trade-union rank and file respectively. Such an initiative would require courage.

The trend of wages in the island shows clearly the ominous consequences of these structural peculiarities. Statistical material is not sufficiently detailed to enable a close analysis of the sequence of wage increases, of the spread of trade-union initiative in the privileged industries, such as bauxite, which can well afford to grant increases. The development of wage disparities shows clearly, however, the extraordinary impact of privileged industries. The differences between the wages even of identical types of manpower (unskilled labour not excluded) in different industries have continued to increase and this increase has possibly even accelerated in the last few years. The wage differential between skilled and unskilled has also been accentuated. The inevitable uncertainty which has been created about whether the start of new industries will not be frustrated by further wage increases must menace the broadening of the industrialization process required by the Plan. Yet the increase in the demand for scarce skilled manpower is likely to accentuate the tendency.

It is thus absolutely essential *to increase at the highest possible rate the supply of skilled or semi-skilled manpower*. (There can be no doubt of the capacity of the Jamaican for training.) Only if the market for skill is saturated somewhat can relative stability be hoped for in a context of continued expansion. If a wage tribunal is established, such

education and training will not lead to an undue depression of skilled wages but merely a planned stabilization at a less inequitable level.

This requirement would necessitate a fundamental recasting of the plans for educational expansion.

It is quite clear that, with the type of monopoly that prevails in commerce and industry on the island, labour does not in the ultimate analysis benefit. Prices seem to have risen at least as much as, but probably more than, wages in most fields. The process is thus likely to stifle industrialization without benefiting labour. I have earlier strongly recommended the establishment of a monopoly commission. This, together with the two tax measures suggested later, are in my opinion essential conditions of any policy which could be evolved on labour.

When these measures have been put through and a better distribution of income secured, I feel the time will have come to establish a wage tribunal which would have to take into account in its decisions the relative income distribution including that for agriculture, the outlook for the general development of the island or the cost of living, and the position and outlook in specific industries. The majority of the tribunal should be of people versed in economic analysis.

I should make arbitration compulsory, if it is at all possible, and its results binding. The fact that a case for increase in wages has to be submitted to such arbitration might, though not necessarily, lead to a better co-operation between the contending trade unions.

The establishment of these two new institutions, together with appropriate taxation policy, might possibly succeed in making the plans for the acceleration of economic development in Jamaica compatible with the need for safeguarding stability.

Education and Development

The ultimate aim of educational advance is to increase welfare and happiness. Plans must be so conceived as not to cause frustration, discontent, and subversion.

It follows that, in a country in transition from utter underdevelopment and illiteracy towards higher income and cultural levels, educational progress must be geared to, in harmony with, and closely supporting, the general socio-economic development. Any imbalance between educational and general development plans will find expression either in manpower shortages leading to dangerous sectional

pressures and possibly general income inflation or in specific unemployment of an especially dangerous character.

A recasting of the education programme in order to achieve its complete integration with the general social and economic targets of the government is more than overdue.

Monetary Reform

Jamaican monetary and financial legislation is modelled closely on that which can be found in other formerly British colonial areas. It represents a slow and reluctant retreat from the currency-board principle which tied the colonial currency to the British pound in such a way that no financial initiative could come from the colonies.[5] This means that all credit transactions had in fact to be initiated in London.

So far as bank credit was concerned, the great overseas commercial banks trading in these areas invested either in liquid London assets or advances for liquid transactions in the colony, i.e. international export and import transactions. The finance of domestic development was excluded, as it would not have been in conformity with the principle of investing only in liquid and shortly self-liquidating assets.

On the long-term field, savings were channelled to London through savings banks to be invested either in British government securities or possibly in colonial government securities through the Crown Agents. In any case, the control of the London capital market over long-term loan expenditure was maintained (and a handsome profit earned) by the veto over long-term issues on the London market. Any government found in 'unsound' practices would have found itself debarred from the use of its own people's savings.

Despite growing self-government, the 'reformed' regulations provided for the continuation of the concentration of reserves in London. The establishment of central banks was opposed as long as possible, and their powers were then closely circumscribed in order to prevent any 'inflationary' finance. Thus the fiduciary issue is limited, and loans from the central bank to the government are restricted.

If the only danger to the newly independent countries was inflation, and if inflation could originate only in lax monetary policy, the

[5] For more detailed discussion of the character and implications of colonial currency organization, see Section One, Chapter Two.

present arrangements would not be unsuitable. They certainly prevent a conscious development policy from being pursued beyond the prejudice of London and the local financiers. Even more unfortunate are, however, their implications.

Should a severe bout of capital export develop, for instance, or even only a sudden cessation of capital imports, the arrangements would preclude the Government of Jamaica and other newly independent countries from offsetting the consequences on employment of this unfortunate development by conscious financial policy. *In other words, the only response to such contingency would be either permitting severe unemployment to develop or the introduction of a complete exchange control.*

In my opinion, shocks to confidence will be minimized if the minimum of necessary amendments are passed before independence and create the required freedom of action at a time when no action is contemplated, or feared even by the most nervous.

Some Suggestions on Tax Policy

In my opinion, taxation policy should, at this stage of the development of the island, primarily be determined by the needs of encouraging productive investment. A drive for greater equality or more perfect justice between taxpayers, if it reduced the rate of growth of employment in the 'modern' sectors of the economy, might in fact defeat its own aims and increase inequality. (In what follows it is assumed that individual enterprise is not replaced by the State. Both political parties agree on this policy.) We must never leave out of account the unpalatable fact that the increase in employment in these modern sectors might well fall below the net increase in the population (except for years of abnormally high emigration). Thus a decrease in the rate of absorption will automatically increase the number in the 'poor' employment sectors and/or of the unemployed and, with it, inequality.

Within this constraint it is essential to decrease inequality as much as possible and to increase deliberately the capital supply of the country.

The latter aim can be attained directly by Budget or Social Pension Fund surpluses.

High-grade administrative manpower is extremely scarce. Thus all arrangements should be cast in forms that minimize the calls on it,

especially by services such as the revenue which do not add to the national income but redistribute it.

From what has gone before it is clear that taxation should be biased strongly against: inessential, especially ostentatious, consumption; profits which accrue by virtue of ownership rather than successful entrepreneurial activity; and incomes which are disproportionately high by virtue of monopoly power, including trade-union activity.

Direct taxation. I should be inclined only to tighten up certain obvious loopholes (e.g. those which arise out of the anomalous position of British overseas companies, and also expense accounts, etc.).

I do not think that the lowering of the tax-exemption limit can be regarded as a revolutionary improvement, even though I am sure that, given Jamaica's relatively low income per head, the exemptions ought to be correspondingly lower than in Britain. But any more in this direction is certain to arouse disproportionate discontent. The urban cost of living (which affects the income classes which would be hit by the proposal) is abnormally high, because of tourist trade and historical anomalies. (This will have to be tackled by direct measures. Tax reform would then become easier.)

A general capital-gains tax might at this stage be more disturbing to economic development than is worth while, even though the US has such a tax, and Britain will probably adopt one.

On the contrary, I should be inclined to increase the rate of the *property tax on land and determine it on the basis of the potential developed value of the land and generalize the capital-gains tax on land* now restricted to the Negril. I feel that land speculation is one of the greatest factors in the increase in inequality and retardation of development. Drastic measures are needed in this field. They would in no way affect genuine enterprise.

In addition to a flat property tax on land I should introduce a low *tax on land revenue* on properties of over twenty-five acres. (Measures must be taken to prevent evasion through nominal sub-division.) This should be fixed according to the *potential yield of the property*. If the property is well managed, the tax burden should be so fixed as to be negligible. It should be onerous on mismanaged land. The tax should not be introduced before adequate technical services and credit facilities are available to put a willing landowner in a position to improve cropping patterns and production techniques.

I should emphatically be in favour of any large-scale development

(such as the Negril) being carried out only on land acquired at pre-improvement values by the State. There is no reason why 75 per cent. of the increment of value due to State initiative should accrue to totally passive owners or to clever speculators. Agricultural public works might be totally, or up to a certain limit of ownership, exempted from this rule.

Indirect taxes. It stands to reason that tax policy must be concentrated on taxing *unnecessary consumption.*

One way to achieve this and bring in consumed capital gains is to assess incomes (as now happens in France) mainly on the basis of manifest consumption standards: the possession or consumption of certain assets or articles would be taken as proof of a certain income. The drawback is a possible increase of the arbitrariness of assessments and a possible increase in the scope for corruption.

But, if there is no general dissatisfaction with the existing methods of assessing and enforcing income tax (as there was in France), this suggestion would lapse.

There ought to be a general and sharp increase in consumption taxes, possibly stretching over a few years to avoid commotion. The increase should be managed to hit ostentatious consumption progressively by exempting articles with a low basic absolute price from the tax.

On the other hand, duties which burden manufacturers (e.g. non-preferential duties on raw materials) should be abolished.

A new tax on the cubic footage of houses above a certain minimum level ought to be introduced. Minimum exemptions might be increased on the basis of personal income-tax exemptions in respect to wife and children.

Duties on motor-cars and other durable goods ought eventually to be *at least 100 per cent. of the landed value.* A certain minimum *absolute* amount of the price (say the first £100 of a car or £10 of a frigidaire) should be exempt to make the duty progressive.

Anti-monopoly tax. In order to discourage monopoly profiteering, an excess-profits duty of 20 per cent. or more might be imposed, with the proviso that it will be remitted progressively on proof that profit margins are kept within certain limits. In industries in which firms consistently refuse to produce such proofs or in which there is reason to suspect that avoidance is encouraged by way of inefficiency, import

quotas at lower rates of duty might be substituted. While I feel that such a measure would probably have important and favourable results, I admit that it can be misrepresented and might deter enterprises. A detailed study of the problem is advisable.

Progressive contribution to social security. One of the most serious features of the present position in Jamaica is the large and ever-widening gap between the wages of people employed in the 'modern' and those in the 'traditional' sectors. This increase, it has been said already, endangers the industrialization of the country by reducing the scope of employment in industries which would have to work at least partially for export. As the exclusively domestic industries could not absorb sufficient manpower to relieve the population pressure at high wages, because of the limitation of domestic markets, some indirect means ought to be found to discourage wage claims which seem out of proportion with the average standard of life and, if they are inevitable, harness them for the achievement of social security and the increase in investment capacity.

Both aims could be achieved by establishing an old-age retirement fund (possibly later extended to an unemployment insurance) to which contributions would be made on the basis of:

(i) a fixed proportion of the wages but excluding the first x shillings per week (say 15/–) and having a ceiling of y shillings per week (say 400/–);
(ii) a (sharply) increasing part of that portion of the increase in individual wages in any period of z years (say, five years moving average) by which the increase of that wage income exceeds the average in incomes.

Retirement pensions should be paid preferably on the basis of a fixed weekly amount plus allowance for wife and possibly allowance for local differences in rent.

Thus trade-union activity would increase social security in-payments. The fund should be so constructed as to yield a surplus of not less than 2 per cent. of the national income per annum over the first ten years of its existence. This would radically change the outlook for investment and for the success of the ten-year plan which alone can provide security for the working population.

Jamaica

The present chapter represents the salient points of a confidential report written for Mr Norman Manley, then Prime Minister of Jamaica (1962) for whose Government I had worked intermittently since 1956. It was a follow-up of a previous report on the establishment of a Central Bank and financial reform.

The first report (not reproduced in this volume) was in response to a completely negative report by an 'expert' from the Bank of England which had been largely supported by Mr Towers of the Canadian Central Bank. I had been for long sharply critical of the policy of the Bank (cf. 'Those Sterling Balances', *Venture* March 1957 and 'A Note on the Monetary Controversy in Malaya', *The Malayan Economic Review*, October 1959; also Section One, Chapter Two of this volume). Its policy encouraged borrowing long by the dependent countries combined with their lending short to London. Thus, even in the best case, an unnecessary burden was laid on the poor while the rich were provided with an income. At its worst, the system enabled the rich to borrow from the poor at a low rate of return. If, in addition, we contemplate the loss sustained by the dependencies on their sterling investments due to inflation, and, worse still, in capital depreciation due to rising rates of interest, the record is not one of which any progressive could be proud. The only offsetting gain is the high rate of interest paid since 1955 by Britain on sterling balances – and this increasingly benefits countries that are even richer than England. My first report provided for the creation of a Central Bank established on the original model of the Commonwealth Bank of Australia. It would thus have had a Trading, a Saving and a Development Department apart from a Central Banking System. In a country with scant capital resources, faced with powerful repatriate banks, this concentration of power seems essential if monetary policy is to be effective. In the end (and quite sensibly) the Jamaicans agreed to the establishment of a 'classic' Central Bank as the Australian innovation was frowned upon by the British.

In the meantime the Manley Government completely transformed the prospect for Jamaica. The disastrously unfavourable contract with the international aluminium companies was fundamentally revised. The revenue from bauxite mining was manifolded. The new prosperity brought new problems especially in respect of wage-costs.

Industrialization was menaced by the shortage of skill and wage-inflation. Tourist trade could be no substitute for purposive combined action in both agriculture and industry. Unfortunately the problem of Federation intervened. The attempt to force through a constitution more fit for *laisser-faire* policies than purposive development (the proposals of the Trade and Tariff Commission were especially pernicious in this respect – cf. 'Making a Customs Union', *Social and Economic Studies*, March 1960) led to growing fears in Jamaica and, eventually, to a collapse of the Federation and a change of Government in Jamaica. In the event, policy was not changed significantly, and US aid, emigration and the tourist boom, partly due to the switch of US visitors from Cuba to the Caribbean, carried the country onwards. The restrictions imposed on immigration in Britain represent, however, a serious setback. The basic reforms discussed in the chapter are still urgently outstanding and will be even more difficult to carry out.

'Crab' Nethersole, whose untimely death was a great blow to his friends, helped and stimulated my work, as did Mr Manley and his political and official colleagues, among whom I ought to mention Arthur Brown and Egerton Richardson.

CHAPTER EIGHTEEN

The Challenge of Totalitarian Planning in Asia[1]

In the last three years India has been engaged in a unique and inspiring experiment which will be decisive for the fate of the non-Soviet World, since the further progress of Communism in Asia may well depend on its success or failure. This experiment is an attempt to do by democratic means, preserving democratic freedoms, what has only been done successfully by Communism and by totalitarian compulsion: that is to lift a poverty-stricken country, mainly by its own efforts, on to the road of progressive improvement through a massive scale of investment. There is not much time left for success. The Chinese, with Russian help, are already well advanced towards solving the problem of their industrialization. The success of the India plans is being made difficult by the complacency of Congress politicians and by the caution of some bureaucrats. It is also menaced by the traditions and religious customs of the country which are being revived and stimulated by the conservative upper class. As unemployment is still on the increase, disappointment in the unfulfilment of the rather extravagant promises of Congress would certainly play into the hands of the well-organized and fanatical (as well as unscrupulous) Communist Party, at the moment very much on the defensive.

The success of democratic planning is equally menaced by the enthusiasm of a number of eminent intellectual leaders who, impatient with the delays and hesitations which obstruct even the modest, indeed over-modest, first Five-year Plan, are trying to enforce much vaster schemes of industrialization on the government. Should they succeed and should sufficient (and sufficiently long-term) foreign help not be forthcoming to buttress these schemes, a financial breakdown would be inevitable. That also would put the Communists in. It is, therefore, essential to work for a big increase – without political strings – of American and Western European aid to Asia to save us

[1] Address at Chatham House, 10 May 1955.

from further Communist victories. Threats of 'massive retaliation' will not sustain our cause in that poverty-stricken Continent. You cannot bomb guerrillas with success.

It was three years ago that Nehru grafted a Planning Commission on to the established civil service structure which was taken over almost unchanged from the British régime and whose existence was undoubtedly one of the major achievements of Britain in India and the major advantage of India in the struggle for prosperous nationhood.[2] It was also the reason for the relatively peaceful transition to independence, at any rate in the areas free from communal trouble. The members of the Planning Commission are of Cabinet rank and, in addition, Mr Nehru, who is Chairman, and the more important members of the Cabinet are also members of the Planning Commission. There is a special Minister of Planning who is responsible for the transmission of directives to the Departments. The Economic Adviser of the Commission is also Adviser to the Ministry of Finance. And the Commission has a brilliant staff of economists who have mostly had experience abroad. As an administrative plan ensuring consideration of issues and problems on the highest level, powerful enough to transmit orders with overwhelming authority, this set-up has yet to be bettered.

The results of the Five-year Plan seem to bear out this judgement. It was estimated under the plan that a total investment of roughly 27 thousand million rupees (£2,000m.) should be achieved or roughly 5–6 per cent. of the national income. Of this Rs. 21 thousand million would be in the public and Rs. 6 thousand million in the private sectors. Of this the bulk (more than two-thirds) would be allocated to agriculture, irrigation, power, and transport. The target increase over the whole Five-year Plan was 14 per cent. in food grain, 40 per cent. in steel, 26 per cent. in mill cloth, and of course, far higher figures in other industries which had not been previously developed. Much the largest portion would be financed by current revenue (Rs. 5·7 thousand million plus Rs. 1·7 million from railways) and by private saving. Deficit finance was foreseen for Rs. 2·9 thousand million or for less than 1 per cent of national income. From this it is clear that the figures were very modest indeed and that even at the end of the Five-year

[2] The importance of this can only be realized by contrasting Indian developments with those in Indonesia or Burma where pre-war production is nowhere near restored – and not merely because of civil wars and disturbances, but far more because of lack of competent administrative cadres.

Plan, and in contrast to China, even a 7 per cent. investment rate was barely contemplated.

The results surpassed all expectations.

ACHIEVEMENTS

After the continuous trials and anxieties of the post-war period of stringency and threatened famine, conditions had eased in 1954 at the end of the third year of the Five-year Plan. Many final targets had already been reached and some even surpassed. Industrial output rose by 37 per cent in three years and, what is more important, agriculture rose by some 15 per cent. The danger of a further decline in the real output and income per head, which has dogged all underdeveloped areas since as far back as 1914, has, at any rate for the moment, been averted. The decontrol of the distribution of vital grains, which was adopted with some trepidation by the Administration, on the basis of a bold statistical prognosis by outside experts which few officials dared to trust, has been entirely justified by events. No inflation ensued. Indeed prices have declined and supplies proved ample to take care of an increase in the demands of the rich without trenching on the meagre rations of the poor. The fall in the prices of some commodities was so great as to cause concern. Oleaginous seeds, for instance, have declined to a post-war low level and in many other products the fall threatens the maintenance, let alone the expansion, of production.

Nor is this all. The Indian balance of payments, which was propped up with difficulty and only by the continuous reliance on war-time accumulations of sterling balances and on American help, has suddenly been stabilized. In fact, a part only of the recent contractual releases of blocked sterling balances could be utilized to finance imports, and at times there was a considerable accumulation of free reserves. In consequence, the pressure in favour of a general relaxation of imports could be gratified without any visible deleterious effect. The precepts of liberalization, continuously reiterated by the ever-present representatives of the American Administration and, no less emphatically, by the International Monetary Fund, seem well on their way to implementation.

In addition, it is claimed that land reform has liquidated the large landowning classes favoured by the British, the Zamindars, and

Taluqdars who battened on the land without bothering to improve their estates and who reduced their tenants to misery. An upper limit is now set to landholdings and a beginning has been made to consolidate the innumerable strips into which land was divided by a completely unsuitable law of inheritance. Thus the essential requisite of a successful rationalization of agriculture has been met. The large community development schemes, it is said, provide education and certain essential services, and the peasants' voluntary work is being mobilized co-operatively and individually to ameliorate their lot. Land has been reclaimed, and an effort has been made to link villages with trunk roads through co-operative action and to pave village roads. The use of artificial fertilizers has been introduced and popularized. New methods of cultivation, especially the Japanese labour intensive method for increasing rice output, and the use of new implements have been demonstrated. Some progress has been made in protecting drinking–water supplies from pollution and in animal husbandry.

DOUBTS

All these achievements have resulted in a much greater outward show of confidence on the part of government spokesmen, who are, of course, at pains to drive home the lesson and to claim the credit. But there is also genuine popular pleasure in the national record. There can be no doubt that it has enabled Mr Nehru to buttress the unity of his all-embracing party and to confound his opponents, both Socialists and Communists. He would have been able to do this even without adopting their most important political plank, the enforcement through taxation and welfare services of a greater equality of standards and opportunity and of a more genuine democracy, thus leaving the Opposition for the time being without a case.

This vacuum is not without dangers. Congress has gained complete ascendancy despite the fact that the situation is not nearly as good as it seems. The doubts and uncertainties below the surface find a muted but very significant expression in the increasing sharpness of tone in which Indian leaders discuss the magnitude of the progress in the reconstruction of China. Here we have a reflection of the vigilance with which they watch development on the north-eastern frontier, of admiration on the one hand, and on the other, the fear of being out-

matched, as well as the disinclination to espouse revolutionary violence and determination.

Why, then, these doubts?

There is first of all, unfortunately, a good deal of the accidental in the undoubted improvement of the Indian position. In the second place, many symptoms (e.g. the balance-of-payments surplus) now generally regarded as 'improvements' are, in fact, the consequence of failures which might become dangerously obvious later on.

Let us take these points one by one:

Agriculture

Two-thirds, if not three-quarters, of the rise in agricultural output must be attributed to the exceptionally favourable weather with two consecutively excellent monsoons. All experience suggests that a repetition of such a run of good luck is at least improbable. Investment in irrigation and other agricultural improvements was only 50 per cent of the (insufficient) targets set by the first Five-year Plan. If the success of familiarizing peasants with the use of artificial fertilizers has in some localities been startling to 'old-hands', there can be no doubt that the unabated use of cow-dung for fuel, instead of mixing it with the mineral, endangers the fertility of the soil and possibly future prospects. The land reform and especially the parts limiting individual holdings, has been, to put it mildly, inoperative in a considerable part of the country. Many landlords were able to retain huge properties by formally distributing them among their own families. The influence of the richest classes in the ruling bureaucracy (since the latter are intent to use their newly-won power to consolidate their social position by wealthy intermarriage) has been so strong on the periphery as to permit them to use even the field-strip consolidation scheme to their own advantage. The religious revival fostered by these classes, which was certainly one of the motives for the recent leftward turn on the part of Nehru and some of the old-established leaders of the Congress Party, prevents a rational policy to improve livestock. India maintains 200 million cattle, a large portion quite useless, trenching on an extremely exiguous food basis. The slaughter of cattle has been banned by law in many parts and stopped *de facto* in most areas. Even monkeys are sacrosanct, though they destroy or eat an estimated $1\frac{1}{4}$ million tons of grain.

A large number of the development schemes are unco-ordinated,

at least on the periphery, and inter-departmental jealousy prevents a full use of existing facilities, e.g. railway bridges which were used for road transport during the war are generally no longer available for trunk traffic, with fearful loss of efficiency and the need for unnecessary duplication of facilities. Despite the fact that both labour and material would have been available, far too little storage accommodation has been prepared. Consequently when the favourable monsoon produced a bumper crop, the surplus could not be fully stored and the chance of establishing a much larger buffer stock than is practicable at present was missed. Thus a vital weapon against inflationary disturbances later, when the plan was really in force, was lost and United States help could not be fully utilized. The impact of this failure to increase buffer stocks to the maximum and to prevent a fall in prices is far-reaching. Not only will it interfere with the expansion of agricultural output but it must also tend to depress the volume of planned investment for fear that later inflationary pressure must be increased. In the same way insufficient progress was made with the attempt to break the grip of the money-lenders through the establishment of an effective rural credit system. An exceedingly able report[3] has now been published and the nationalization of the Imperial Bank and its conversion into the apex of a new rural credit system is intended. It is questionable, however, whether an institution with a staff so imbued with ultra-conservative tradition can really be transformed into an instrument of positive policy. Much more should have been done much sooner to start a new rural banking system.

In the provinces the disadvantages are more patent. The enthusiastic temporary civil servants of the Planning Commission are kept very much in their place by the Political Officers, whose attitude has not changed for the better as a result of liberation. The methods of recruitment to the civil service and the type of person preferred also remain unchanged from the previous régime. The formal education which develops dialectical powers rather than knowledge of the world and its problems, and severely discriminates against vocational training and technical knowledge – indeed the paraphernalia of the least attractive side of Oxford and Cambridge – are much to the fore despite the reforms initiated since 1947. The problem is a bitterly serious one in the Indian setting as the powers of the bureaucracy are only sporadically limited by local self-government. The provincial

[3] *Report on the All-India Rural Credit Survey*, by a Committee appointed by the Reserve Bank of India (Calcutta, 1954).

parliaments have proved inadequate to supervise, let alone control, the bureaucracy on the periphery. The administrative set-up remains unchanged, yet it is surely foolish to think that an administrative organization created to manage a night-watchman State would be able to cope suddenly with the problems and the administration of a welfare State.

Industry

What is true in the provinces and villages in respect to agriculture is paralleled in the cities in industry. The upward bound in production is to a large extent, if not entirely, due to the private sector in which little new investment has been accomplished. It appears to be the result of a better utilization of existing capacities and is not due to the creation of new capacity. This does not detract from the welcome immediate relief through the easing of shortages, but it sets a narrow limit to further improvement. On the other hand, the expansion of the public industrial sector remains far behind schedule. Unconscionable time has been wasted before placing orders for the new steel plants, and the accomplishment of the rest of the programme has not been helped by the unwillingness of many government departments to take risks and responsibility. The relative purity of administration has been paid for heavily.

Even lately the Ministry of Commerce has reacted strongly against State trading of any kind, though it is quite clear that it is an essential requisite for the rationalization of production as well as price stabilization. No effort has been made to experiment with an effective control of new industries so as to safeguard productivity at the outset. Raw material controls are inadequate and the control of capital issues remain perfunctory. Thus the terrible shortage of low-income housing is not being tackled with sufficient energy, while luxury housing booms. There is no co-ordinated programme to safeguard employment in the existing industries and handicrafts while building up a powerful capital goods industry (though at times permission has been refused to rather ruthless industrialists to import labour-saving machinery which would have knocked out existing producers). The nationalization of industry (e.g., sugar) the ownership of which would be vital if profiteering is to be avoided in the later stages of expansion, has not even been contemplated. No doubt transport has appreciably improved. A great number of Canadian locomotives have been

bought and wagons are being built or imported. But railway building has not progressed much and even road construction, where rural under-employed and urban-unemployed could easily have been used, has not proceeded with sufficient determination.

One-fifth of all employables are without work in the urban areas, and up to half of the white collar workers. Consequently Communism makes appreciable gains, though it still has to conquer the working class in the north.

The very improvement of the balance of payments, which evokes the approval of banking experts, is in fact a failure. The surplus of foreign trade means that the potential productive power of the country is not being developed to the utmost. Yet time presses greatly and no such waste can be tolerated. As much as a half of total profits still accrue to foreign owners, and foreign enterprise is still expanding at a much greater rate than Indian enterprise. Far larger investment and a far better income distribution would have been within the grasp of the country with a little greater foresight, greater confidence, and greater energy.

Social Problems

If economic management, at a closer view, suffers from great weaknesses, far worse is the situation on the social plane. A greater equality has not been achieved either socially or economically since liberation. There is a drive against untouchability, but conditions in the 560,000 villages have not really changed. There is, of course, a considerable exodus of these miserables into the cities, but they exchange aggravated unemployment for their caste disability. The drive against illiteracy is not sufficiently intense and the money which should be used to secure a broad base for social and technical reconstruction by providing elementary and technical schools is spent on providing educational frills and 'pure' scientific institutes. In so far as the universities bring forth a stream of unemployables they contribute to the unsettlement of the experiment in democracy rather than buttress it.

Though the Indian Government, unlike the Communists, realizes that efforts to limit the population are essential if a beginning is to be made to relieve poverty (the Chinese are obviously intent on organizing an industrial base for a defence economy rather than anything else), all that has happened in this field has not been very effective.

No headway has been made to provide mechanical means of contraception, the argument being that they are expensive and unpopular, at any rate with men. Open propaganda against, or an outright attack on, archaic social arrangements seems to be frowned upon for party political reasons. Thus the Administration turned with only too obvious relief to an American expert who proposed to use among illiterate peasants methods of birth control which necessitate careful observation of physiological changes, e.g. body temperature, and which are of questionable value even when all precautions are meticulously observed. The result, as can be expected, is failure, if for no other reason than that the wife cannot stand up to her husband in the prevailing atmosphere of social disapproval. Under these conditions, it is perhaps fortunate that hardly one-fifth of the amount originally appropriated for the purpose has actually been spent.

The Problem of Bureaucracy

The very existence of a reliable and well-trained administrative staff was a tremendous advantage to India. It can be said without much exaggeration that the British Raj has been replaced by the domination of a class which holds itself as aloof from the people as did the British before, and continues to enjoy a shockingly higher standard. The highest of the old type Indian civil servant received from 120 to 150 times the wage of the common labourer and even the new Indian administrative servant receives 100 times as much, against fifteen to twenty times as found in corresponding grades in Britain.

The whole problem of reform is complicated by the fact that the Centre, which contains exceptionally able people well qualified to cope with the problems intellectually, has difficulty in obtaining reliable intelligence on developments in the provinces, and the administrative linkage between it and the actual local administration does not seem firm enough to permit a smooth translation of plans.

In the best of circumstances, India can hardly hope to equal the rate of development in China. The ruthless liquidation of the upper class; the capacity to disregard, or to overcome by police action or by massive indoctrination, customs and traditions hampering progress; an incentive mechanism which does not stop at the 'sack' or promotion; these give China immense material advantages. The hatred evoked by violence and the fear which dogs the individual no doubt have

serious drawbacks even on the plane of immediate material progress. Yet there can be little doubt that they have enabled China to begin to mobilize her latent strength far more readily than India. India has yet to achieve a rate of investment of the order of magnitude of over 7 per cent. of the national product, disregarding agricultural maintenance work.

Thus the disparity between the basic capital accumulation is so great as to leave no doubt of the inevitability of India being steadily overhauled and then vastly outmatched by China. Indeed, since even that critical level of investment at which output per head begins to grow has not been reached in India, the vital importance of the difference can easily be appreciated. There is, moreover, no obvious direction from which an increase in investment can come. There is increasing resistance to further taxation. And controls which would have buttressed the economy against the inflationary dangers resulting from a bolder use of credit creation for financing development projects have, as we have seen, disappeared. India is very naked in the face of a storm.

Moreover the effectiveness of capital investment in India itself is in grave doubt. The start of the motor industry in India was on a pitifully uncompetitive scale, and there are already signs that the curse of the multiplication of types, which have such a painful effect on the standard of life even in advanced countries through the consequent rise in prices, will beset the Indian infant industries at their very inception.

The first ingredient of an effort to meet the Communist challenge, towards which New Delhi is groping in the shape of the second Five-year Plan, is a much more drastic mobilization of the economic resources of the country than has hitherto been attempted. Investment plans would have to be multiplied and speeded up and far greater effort made towards mass training of technicians. Controls over imports, and even internal distribution, would have to be tightened up or re-introduced. Taxation would have to be made far more progressive, especially on sumptuary expenditure absorbing scarce resources and thus trenching on progress, and more discrimination between necessary and unnecessary investment must be introduced. Banking reform must be pushed through and plans prepared to appropriate for development finance the increased profits in certain key sectors, possibly by taking over a number of consumer goods industries (e.g. sugar). There is urgent need for administrative reform.

Such far-reaching reforms would take time, and time is the one

thing which the Indians have no longer available. In order to be successful, they must be helped by foreign countries and helped on a grandiose scale. Foreign help is an alternative to ruthless planning and austerity. At least \$500–700 million of foreign aid would be required annually for a period of at least ten years to be sure of being able to overtake the massive advantages of China, and of being able to plan without the risk of yearly appropriations failing. This level of help contrasts with \$100 million from the United Kingdom under the Colombo Plan and perhaps \$150 million from the United States granted at present; it is well inside practical possibilities.

This level of foreign aid together with a ruthless use of existing foreign exchange reserves[4] would permit an increase in the investment rate towards 8–9 per cent. If, then, the Indian Government succeeds in keeping the increase in consumption from absorbing the whole of the consequential increase in output, India would be firmly set on the road of cumulative improvement.

Thus the totalitarian ruthlessness which smashes values which the West wishes to preserve could be met without violence, without outraging religious or social traditions, without revolution. But it must be realized that religious and social traditions and class-relationships do in many cases handicap economic development whatever their influence in other directions. Otherwise, in the absence of foreign help, the growing distress or even the growing disparity in strength between India and China may well undermine those values and open the door to general unrest and subversion.

THE OUTLOOK

It is not surprising, however, all things considered, that in the most literate parts of India, the desperately poor South, the Communists have established a powerful hold. It is equally comprehensible that the growing unemployment and frustration of the educated middle class in Bengal has resulted in a disturbing strengthening of extremism.

Beyond all this, the number of people, some in exceptionally influential positions, who are so impressed by the achievements of China that they begin to wish to imitate them is growing. Consciously, no

[4] Which are four times greater in relation to imports than the British reserves despite the much greater post-war stability in the Indian balance of payments.

doubt, they adhere to Mr Nehru's proud refusal to copy foreign methods and to accept their social and political implications. Subconsciously, they try to persuade themselves that grandiose plans can be put forward without committing anybody to the acceptance of Soviet methods of incentive and control, or of a revolutionary break with, rather than a painstaking reform of, the administrative structure.

An unsuspecting Administration might be pushed into accepting over-ambitious projects because the opponents of their plans can easily be discredited by being accused of a reactionary political outlook. The past failure to devise a sufficiently bold plan, and the consequent political threat to the Congress Party, will make the politicians distrustful of warnings against adopting such over-ambitious plans. However dangerous they might prove to be it would be difficult politically to withdraw from them even though they committed the government to revolutionary change. Thus their acceptance might well result in a drift to an administrative breakdown and economic disorder in the shape of inflation. Such troubles are likely to provide an opportunity for the Communists, at any rate in some key States (e.g. Bengal), and it is questionable whether the Federation itself could then continue to function. The consequence might well be a renewal of violence on a tragic scale.

But even if well-intentioned efforts failed to result in such a drastic reversal, and even if a revolutionary situation were not produced, the dangers facing India are not inconsiderable. The present exhilaration might well be confounded by a setback, and a setback would be inevitable if the next monsoon is a failure or the terms of trade worsened further. The ensuing disillusionment and bitterness would inevitably have grave political consequences, graver because the present auspicious situation has raised hopes so high. There is an ominous gamble in promising, as Congress did, to abolish unemployment within ten years when unemployment continues to rise sharply in contrast to the war years of full employment. It is just possible that it was the fear of Right-wing reaction and of the rise of dangerous discontent in strategic frontier areas, and not merely electioneering propaganda, which prompted the Congress Party to veer to the Left. They have accepted all but unanimously a resolution in favour of remodelling Indian life 'on a socialistic pattern'. But resolutions flirting with Socialism have been passed by Congress since 1929 and have amounted to very little, though Mr Nehru undoubtedly has always

been a sincere believer in social reform. These resolutions of the Avadi Congress will in the short run undoubtedly further buttress the strength of the Congress Party, which is already overwhelming. They might well result in the elimination of political splinter parties, especially the Socialists. They will not altogether eliminate, though they may temporarily weaken, the Communists. Whether in the long run the elimination of all alternatives other than the Communists has been a wise step is another question.

What are the general lessons to be learned from this conflicting evidence?

The first and most important lesson is that totalitarian régimes have a drastic 'advantage' in being able to mobilize manpower for investment in undeveloped areas. This they can do by direct organizational measures compelling villages to maintain 'investment' workers, thus overcoming the reluctance of individuals to perform work without visible immediate advantage to themselves; again their all-pervading police system enables them to obtain indirect 'finance' through 'voluntary loans'. The only adequate answer to this is foreign help. But of course partial nationalization of industries which might profiteer by 'shortages' caused by the national investment programme, buffer stocks regulating a naturally unstable supply, and severe taxation, especially sumptuary taxes on consumption of luxuries, might provide a partial alleviation.

In the second place, the Communist system enables the adoption of optimum factory size and the exclusion of waste through excessive quality differentiations. This can be at least partially overcome by differential taxes against over-elaborate types, tax-concessions, and bulk purchase contracts given to selected firms and import controls. The third advantage of Communists in having an all-pervading investment programme could be matched by a general adoption of investment controls and tax concessions for approved investment.

Finally, but not least, the Communist drive for general education and especially technical education must be matched. Unfortunately far too little is being done in this respect both in India and in other under-developed areas. The British especially, and even the French, often try to peddle culture without social content, dilettante erudition instead of practical knowledge and, by the elaborate luxury of the university establishment, separate the educated from the rest of the population. A massive drive against illiteracy ought to be combined

with primarily vocational training. The primordial interests of the country in the scientific solution of practical problems must be the centre of its scientific research institutes. 'Pure' science should grow organically from this preoccupation with practice and not be sedulously tended in a strange environment. Knowledge without social import is perhaps worse than useless. It divides instead of integrating; it makes for frustration and not fulfilment. Even we in Western Europe have much to learn from these lessons.

CHAPTER NINETEEN

India: The Second Wind

The Second Indian Five-year Plan reveals significant differences from the original 'plan-frame' of Professor Mahalanobis.[1] The plan for investment in the public sector, in its preliminary and revised forms, is summarized in Table 1. It will be seen that total public investment in 1950–60 is now planned to be more than double the level in 1951–6 – at Rs 48 thousand millions, against a preliminary target of Rs 43 thousand millions. In addition, investment in the private sector, which was around Rs 16 thousand millions in the period of the First Plan and was scheduled in the first drafts of the Second Plan to increase to Rs 22 thousand millions, is now to be stepped up by 50 per cent. to bring total private investment in 1959–60 to Rs 24 thousand millions.

The most important revision in the public-investment programme, as Table 1 shows, is for investment in transport and communications– now scheduled to increase to two and a half times its level in 1951–6, to Rs 13·84 thousand millions or almost 30 per cent. of total public-sector investment. Of this, the lion's share (Rs 6·32 thousand millions) is to go to the railways. The provisions for construction and social services have also been significantly stepped up, by just over a quarter, from the original figure of Rs 7·5 thousand millions to Rs 9·46 thousand millions. However, not all the revisions have been upward; the main cuts are in investment in power and industry.

The effect of these changes is to strengthen the general impressions created by the first sketch of the Plan made last year. The strains on India's economy will be increased not only by the further expansion in the total volume of investment but also by the amendments in its allocation. The main increases are in long-term investment unlikely to yield much immediate return, such as that in the railways, other

[1] The 'plan-frame' I discussed in *The Banker* of August 1955, in an article 'India's Second Five-Year Plan'.

transport, and construction, whilst the increases in allocations to industry have been revised downward substantially. These changes, admittedly, will help the government in one of its main tasks, that of providing employment for the millions of unemployed and under-employed. Increased outlays on railways and construction can be made without calling forth the purchase of elaborate machines, the import of which would burden the balance of payments. Such public works, moreover, will increase the income of the lowest wage-earners and thus increase demand for food-grains, which are relatively abundant (the severe fall, by almost 10 per cent., in Indian food prices in 1954–5, caused considerable distress in rural areas). Thus this re-channelling of investment could in this way dampen an otherwise potentially dangerous inflationary pressure on resources. On the other hand, investment in agriculture seems inadequate, even if account is taken of the large part of the investment in 'power' that will increase irrigation. Under the revised plan, agricultural investment, at Rs 10·23 thousand millions for the five years, has fallen from 16 to 12 per cent. of the total panned. Yet at least part of the spectacular advances that have been made in food and agricultural raw-material produc-

Table 1

INVESTMENT IN THE PUBLIC SECTOR

	First Plan, 1951–6	*Second Plan, 1956–60*	
		original basis	*revised basis*
	(*Rs thousand millions**)		
Agriculture and community development, including irrigation and flood control	7·67	9·50	10·23
Power	2·66	4·50	4·40
Transport and communications	5·56	9·50	13·84
Industry and minerals	1·79	11·00	8·91
Construction and social services	5·47	7·50	9·46
Miscellaneous	0·41	1·00	1·16
Total:	23·56	43·00	48·00

* One thousand million rupees equivalent to £75 million at official rate of exchange.

tion in recent years has been due to an unusually long series of favourable monsoons. No doubt the very backwardness of Indian agriculture assures a tremendous scope for improvement without huge capital outlays. But it is difficult to see how, for instance, the proposed expansion of community development and agricultural extension schemes to cover 325 million people instead of only 80 millions is to be achieved by an increase of expenditures from Rs 900 millions to Rs 2,000 millions.

On balance, unquestionably, the alterations introduced into the Plan since last year increase the need for conservatism in estimating the prospective increase in real national output – and, correspondingly, enhance the doubts about the possibilities of financing the proposed development from internal sources. The Plan as published is rather equivocal about the means of finance. The official estimates, reproduced in Table 2, leave no less than Rs 24 thousand millions – just 50 cent. of total financial needs – uncovered from domestic sources. Foreign aid for the five years as a whole is estimated at Rs 8 thousand millions (equivalent to roughly £600m.), but the cumulative deficit in the balance of payments is now put at Rs 11·2 thousand millions, compared with last year's estimate of Rs 10 thousand millions. Even this revised estimate seems to make insufficient provision for the possibility of bad monsoons, for a decrease in exportable supplies as a result of an increase in the consumption of the peasants, or for worsening of the terms of trade. Rs 12–16 thousand millions, or £900m.–£1,200m., might be a more realistic figure.

The amount to be found from domestic sources, if foreign aid reaches the planned total, will still be no less than Rs 16 thousand millions. Deficit finance in a country such as India, in which the monetary economy is still at an early stage of development in the large rural sector, has in principle considerable scope. But with a total monetary circulation of Rs 21·25 thousand millions the addition of as large an amount as that envisaged over five years would be fraught with danger, even if the traders and others in India were not as apprehensive as they are. The system of direct controls instituted during the war has been largely disbanded (not the least as a result of the influence of Professor Mahalanobis). The reluctance of the Indian Civil Service (as of Britain's) to operate direct controls and discriminatory planning presents a further important obstacle to the use of such restraints to mitigate the effects of inflation. Very little has been done to limit the premature growth of demand for Western-type consumer

goods, which is bound to occur if for example electrification is not confined to industrial use. A much firmer financial basis must therefore be found for a larger portion of the development outlays if monetary stability is to be assured. Yet as we shall see such a firm basis will not be easy to find.

Nor is this all. The Plan foresees not merely a sharp expansion in domestic private investment but also a decisive stepping-up of private investment by foreign enterprises. The gap in foreign payments is all but Rs 4 thousand millions, even on the assumption that governmental help to the tune of Rs 8 thousand millions can be secured. Of this, only Rs 2 thousand millions can be met from drawings on accumulated sterling balances. The remaining sum of just under Rs 2 thousand millions is to be covered from the foreign-exchange proceeds of private direct investment, and credits already granted but unused. Thus no sharp increase in taxes falling on foreign interests can be contemplated. Indeed, it is difficult to square the desire for this high rate of foreign direct investment with the nationalization measures already announced or still under discussion.

The decision to entrust the main task of industrial development to public enterprise is certainly justified. Indian domestic entrepreneurship has undoubtedly shown itself deficient in initiative. Nor can one criticize the decision to confine the expansion of large-scale enterprise, even in the private sector, mainly to the heavy industries, limiting the growth of consumer goods. The premature displacement of millions of handicraft workers at this stage would invite political disaster. Moreover, there is some hope that significant technical progress will at last be achieved in the production of capital equipment for the small-scale industries (such as small power looms), and that this will make them competitive at least in a limited number of fields.

But however reasonable these basic principles underlying the Five-year Plan for the private sector may be, the means of putting them into effect seem to be lacking. The biggest profits will arise in the spheres where no expansion is to be permitted, while little provision has been made to channel capital towards those whose growth is deemed essential. Thus a drastic strengthening needs to be made both in the available financial resources as a whole and in control over investment, to direct finance into the planned channels.

It is not impossible to take a more hopeful view. There can be little doubt that in India the high rates of taxation – super-tax at the margin is 92 per cent. – have resulted in tax evasion. A memorandum of the

Gokhale Institute put the sums lost through tax avoidance and evasion at some Rs 650–750 millions; more recently, it has been suggested that this figure might be nearer to Rs 2–3 thousand millions. The Central Board of Revenue puts undeclared income alone at Rs 1·6–1·7 thousand millions. Losses on this scale might considerably affect the finance of the Plan. The much-sought answer to India's supreme problem, that of devising a successful technique of planning through democratic means, appears to demand in the first instance a radical tax reform.

Table 2

PROJECTED FINANCING OF SECOND FIVE-YEAR PLAN

	Rs thousand millions	
Surplus from Current Revenues:		
At existing rates of taxation	3·50	
Additional taxation	4·50	8·00
Borrowings from the public:		
Market loans	7·00	
Small savings	5·00	12·00
Other budgetary sources:		
Contribution of railways to development programme	1·50	
Provident funds and other deposits	2·50	4·00
External assistance		8·00
Deficit financing		12·00
Uncovered gap		4·00
Total requirements:		48·00

Two particular circumstances are likely to prevent direct tax reform from providing the panacea. Increases in taxation will hamper the attempts to stimulate private investment; the effect of higher rates may be to cut savings and investment rather than consumption outlays. Secondly, even a cut in private-consumption expenditure as such

will not, in Indian conditions, necessarily produce the desired results. A large part of this expenditure is devoted to servants or goods produced by handicraft. A non-discriminating cut in expenditure might, in fact, easily result in increased unemployment rather than increased investment. Direct prohibition of certain imports (such as motor-cars and other durable consumer goods) and crushing excise taxes on purchases of various other goods embodying scarce resources might be far more effective than a system of penal direct taxation, however skilfully devised. Moreover administration of such a system would involve disproportionate demands on skilled personnel and effort, which India cannot easily spare for the purpose. It would be a mistake to assume that tax avoidance or evasion can be eradicated by legislation. And less harm to entrepreneurial confidence might actually done by a limited extension of public ownership to industries likely to benefit most from increases in income, such as the sugar industry.

CHAPTER TWENTY

India: Towards the Crunch[1]

THE MEANING OF THE THIRD PLAN

The Third Plan is of exceptional importance. Its success or failure will in fact decide whether the establishment of a socially balanced and increasingly prosperous and integrated community is feasible without compulsion and without violent revolution. It will decide whether India is able to lay the foundations for an eventually self-sustaining growth.

While at the end of the Third Plan foreign help will still be needed in almost undiminished absolute quantity, the decisively important feature of the Plan is that, in relative terms, the importance of the foreign aid will fall at the end of the Plan as much as from 27 per cent. to less than 20 per cent. of total net investment while total investment continues to increase both absolutely and even in terms of an expanding national income.

In this way, according to the present provisions, complete economic independence will be reached by 1970. After that date, India is no longer to depend on foreign help at all but would stand entirely on her own feet.[2]

The conception of the Third Five-year Plan is admirable. It is an earnest attempt to face up to the fundamental problem of social and

[1] These notes were prepared during a brief assignment at the Indian Statistical Institute in the winter of 1960, while working in the Planning Unit of the Institute at New Delhi. I was much benefited from discussion with Professors Lefeber and Mahalanobis, as well as Messrs. Pitambar Pant, Ramaswami, and M. J. Solomon. The shortcomings, analysis, and opinions are my responsibility alone.

[2] Foreign private investment would, of course, still flow to India to utilize the greatly enhanced opportunities for profitable expansion of the supply of consumer goods in the private sector due to the increased well-being of the population.

economic inequality. Its success will depend entirely on the determination and self-discipline with which the execution is undertaken. Good intentions are not enough. After all, the basic conception of the Third Plan closely follows the original pattern of the Second. The Second Plan, too, aimed at increasing national investment and savings to a level at which self-sustained expansion might be assumed to be secure, i.e. roughly a level of national savings of 10–11 per cent. of national income. This meant an increase in the rate of saving of some 50 per cent. It was hoped to accelerate the growth of the economy towards 5 per cent. per annum and divert an increasing part of the increment towards saving.

This did not happen. While consumption per head increased by as much as 16 per cent. during the last ten years, national savings hardly increased at all – from 6–7 per cent. of national income during the First Plan to about 8 per cent. during the Second. The 'strain' of accelerated investment was taken not by the domestic economy but by foreign aid. From a national point of view, the failure to establish the basis of stable growth was complete. The important advances in production and social development must not blind one to this basic weakness.

At this level of savings, the national effort is totally insufficient by itself to sustain an appreciable growth of the national income. The obvious aspect of this failure is the continued incapacity of India to obtain by her own efforts the capital goods required physically for a process of cumulative expansion. While restraint on her consumption might enable her to import them, the measures which would be required to accomplish such a curtailment of consumption would probably be incompatible with the survival of a democratic régime.

Perhaps the most disappointing feature of the actual progress of the Second Five-year Plan was the failure–despite the immense extension of foreign help which could not have been expected by even the most optimistic – to attain an appreciable acceleration in the rate of growth. The foreign aid was used merely to maintain the growth of the economy at the rate achieved during the First Plan, of little over 3 per cent. No doubt during the First-Plan period India could rely on unused productive capacity, while a large part of the investment in the Second Plan (e.g. in iron and steel and large-scale irrigation) will only benefit the country in subsequent periods. Nevertheless, the net result is disappointing. In this respect, too, the Third Plan is a mere reiteration of the ambitions of the Second. And it should be realized

that even the fulfilment of this target, a rate of growth of 5 per cent. per annum (some 70 per cent. above the rate previously achieved) represents a *per capita* improvement of less than 3 per cent. per annum. It can hardly be said to deal with the problem of poverty; it cannot even provide employment for the growth of the population. It is the most modest rate of growth which is politically tolerable.

All in all, it may be said that the national testing time, the great challenge to India which was to have been triumphantly overcome during the Second-Plan period, has been postponed. Those who talk about the 'dangerous strains and stresses' on the 'economic system' on the basis of the experience during the Second-Plan period, in fact, perform a signal disservice to the nation. It would be more accurate to speak of a national evasion of the strains and stresses by relying on foreign aid from both sides, made available mainly by the competitiveness in benevolence induced by the cold war, and by postponing the day on which an effective attack can be made on unemployment and underemployment and the poverty connected with them.

It will be argued below that the targets envisaged even for the Fourth Plan seem insufficient. Unless net investment is lifted towards 20 per cent. of the national income, and the overall rate of expansion accelerated towards at least 8 per cent. per annum, these fundamental problems of India cannot be alleviated. Even such an effort will not deal with the problem for a considerable time. It should be realized that the investment per man in industry needed to make possible a reasonable level of productivity and income is at least $2,500. This would mean, if industrialization is to absorb only half the increase in total population (the rest being absorbed in services), capital investment of some $5,000m. per annum, or more than the total investment foreseen in the Third Plan. To absorb the 20–25 million unemployed and alleviate the fate of the countless underemployed is a gigantic task. As the population is probably increasing at an accelerated rate, the backlog threatens to become unmanageable. A much greater sense of urgency and of danger seems absolutely essential.

THE FUTURE ROLE OF FOREIGN AID

In discussing this dependence on foreign aid and the conception underlying the Third Plan, stress should be laid not so much on the actual achievement of self-sufficiency in the sense of total ending of

foreign aid but on national independence in the sense of being able to achieve a tolerable rate of growth on the basis of purely domestic resources. The total ending of foreign aid is neither probable nor desirable, even after 1970. But it is absolutely essential, in view of the vagaries of the foreign policy of the Great Powers and the increasing demands on the resources of the US from other parts of the world, that India should achieve self-sufficiency in the sense of being able to stand alone and yet achieve a socially tolerable rate of economic progress without aid.[3] It is therefore imperative to make the most of foreign aid in the next few years.

My doubts of the desirability of being without foreign aid after 1970 are based on the fact that even if the Third and Fourth Plans as contemplated now were fully successful, national income per head in India would still be lower than $100. This would mean that India would still be amongst the poorest nations, probably slipping behind China. There would be no reduction in international inequality.

Even more evident is the fact that, on the basis of a rate of growth of *per capita* income by, say, 2 per cent. per annum, internal inequality in India will also persist, if not become more acute than it is at present. So long as the agricultural population is growing in absolute numbers no real relief from inequality can be expected. Yet this growth will continue not merely up to 1971 but beyond. An immense effort will be required if this increase is not to result in a further aggravation of the disparity of the productivity between the over-crowded rural and urban India.

Thus foreign aid will still be necessary. I have little doubt that a continuation of foreign aid will be easier and not more difficult to secure, even if the present main motivating force, the cold-war competition, should abate. The sense of international responsibility has been steadily growing. Foreign aid should become a conscious weapon controlled internationally to combat poverty and inequality in an international framework. This does not mean, however, that the Indian Government and people need not press on to render their basic development independent of foreign contributions.

[3] Indian poverty is much greater than in most of the other underdeveloped areas, and from a purely humanitarian point of view the Indian claim for further help is unassailable. But the distribution of foreign aid is not determined by rational humanitarian considerations alone.

EQUALITY AND PROGRESS

Even such a modest end requires a concentration of effort, the intensity of which does not seem to be fully realized. When people in India talk about the strain and stress experienced by her economic system, they seem to forget that the strain hitherto experienced was not more than an increase of the internal contribution to investment from 6–7 per cent. to about 8 per cent. of the national income.[4] This small increment measures the internal effort brought towards the increase in national income. To regard this as the limit of effort is to accept failure in advance and condemn India to stagnation and eventual revolution.

No doubt the physical demands on the Administration, as well as on the managements of various new undertakings, were very great. This strain is in some way a measure of the failure to plan adequately the physical needs of the increased output and national income. Looked at from this viewpoint, the difficulties in the coal and steel sectors represent not a strain as a consequence of planning but a stress caused by its failure.

What needs to be emphasized over and over again is that far from involving any sacrifice, and more especially any sacrifice on the part of those who were already above the poverty level, the Second Plan enabled a very appreciable increase in consumption of certain of the urban classes of industrial and transport workers, and some industrialists and businessmen. Without any doubt it has also meant a very appreciable improvement in the standard of life of medium- and large-size farmers who have begun to take what might be called an 'entrepreneurial' attitude towards their work. There remain, however, large rural areas and sections of the population which have hardly been affected by the progress made. There remains the basic problem of rural underemployment which has hardly been diminished and may indeed have increased as a result of the growth of the population, and there remains urban unemployment, which is still on the increase. All this means an increase in inequality, against the professed aim of the government.

I am in no position to assert that there are many in India whose

[4] The increase in taxation was so slight (from 6·9 per cent. of the national income to 9·3 per cent., direct taxes rising only from 2·4 to 2·7 per cent. – the regressiveness of taxation seems to have been accentuated) as not to merit much consideration here.

situation may have actually deteriorated, though this seems not improbable in view of the rise in prices, but it would be safe to say that a great number of people still remain pressed down to a level which, from all human points of view, may be regarded as totally insufficient. Any successful attempt to cope with this particular problem implies the maintenance of a reasonable rate of economic progress measured in conventional terms of national real income. Given the rate of increase in India's population and the character of the Indian economic system, a failure to attain a certain rate of expansion means that the degree of underemployment and unemployment increases, and with it the number of those who, despite the growth of national income, are unable to obtain income. Thus the degree of inequality in the community also increases. Only when the increase in employment at average income is greater than the growth of the population can progress towards greater equality be claimed.

The annual increase in population now is probably above 8 million and will soon rise towards 10 million per annum. If these people are to be cared for, the necessity of accelerating investment and growth in the organized sector is evident. Otherwise, the expansion in the organized industrial sector will show an ever-increasing sharp contrast with the continued stagnation of the rest of the economy. The relationship between the attainment of other meritorious social aims in India and the size of the Plan, and especially the size of investment in organized large-scale industry on which the hopes for an accelerated increase in the national income must be based, is thus evident.

Attempts to cope with the problem of unemployment by short-cut methods such as the dispersal of industry, or the subsidizing of cottage industries without sufficient attention to the productivity of the proposed schemes, are likely to be self-defeating and, because of the relentless increase in the population, decidedly harmful. A real reduction in inequality will only be possible if attention is concentrated on achieving the maximum increase in the national capacity to provide productive employment. Thus schemes which produce greater income more quickly will facilitate increased investment, which in its turn will permit further increases of output and investment.

This does not mean that rural industries should not be supported, or that community development projects should not try to augment the standard of life of rural populations by such means as mobilization of unemployed through linked publics works (see Section Two, Chapter Four) based on schemes which might increase productivity

(e.g. dams, irrigation, and drainage canals), or through handicraft centres which might represent net additions to available supplies. But it does mean that the main consideration must be the most effective and largest possible increase in the organized industrial sector of the economy.

Within the task it would seem essential to choose techniques which enable the largest possible utilization of manpower. Labour-saving devices must not be employed unless the nature of the technical task makes this unavoidable. What must be avoided is a reduction of the capacity to provide employment through using available scarce capital and management inefficiently.

This means that the problem of the less favoured areas must be tackled for the moment by efforts to increase rural productivity, rather than by forcing new industries to migrate and develop in unsuitable places, in unsuitable units. In most cases, even this might imply a fall in the efficiency of the investment which must be offset by measures increasing its total volume.

Much more attention should be paid to widening the access to education. This would promote equality of opportunity and could also accelerate growth through the creation of a background favourable to the acquisition of technical knowledge and skill. The access to education, especially technical and higher education, is still extremely limited, and (partly in consequence) the establishment of closed new privileged minorities is threatening.

Thus the popular distinction between purely economic and social aims of the Plan are based on a fatal misconception of the consequences of the failure to maintain a minimum rate of expansion. Any claim to the achievement of a socialist society, or even a modest progress towards the end of establishing a socialistic or socialist community, is inseparably bound up with the size of the Plan and the contemplated rate of economic growth.

THE RELATION BETWEEN ECONOMIC AND SOCIAL ENDS

It is necessary at this stage to realize that a divergence between economic and social ends may arise when some measure of affluence has been achieved in India. There is growing unease in highly developed capitalist countries due to the dependence of continued high employment on continued profitability, which in its turn drives an

increasingly saturated economy towards the artificial creation of wants. Only if dissatisfaction is created can production yielding adequate profits be possible. In contrast, collective needs such as town planning, health, education, and the like are starved because they depend on taxation, and a powerful publicity machine is mobilized to appeal to immediate self-interest in fighting increases in taxation. Thus the affluent society suffers from increasing social and psychological stresses.

What is perhaps less realized, because of Professor Galbraith's exclusive concentration on the problem of the United States, is that the problem of affluence, the problem of the creation and satisfaction of wants, in some respects is posed in a more acute form in communities which combine a low average income with grave inequality in its distribution than in rich countries. If the pattern of income distribution and production in a community undergoing a violent industrial transformation is not directed towards the desired end, but is left free to develop, there is grave danger that the emerging industrial structure will be shaped by the current anomalous, because extremely unequal, income distribution. Once the pattern of consumer goods industries has evolved, a strong vested interest among workers is created in the continuance of the anomalous distribution of income. It is feared that change would result in unemployment and distress. If a better society is to emerge from the industrial transformation, either a balance between incomes must be created at the outset or licensing of private, and the establishment of public, sector enterprises must take into account the final aim of the system.

The proposed establishment of a so-called 'people's car' factory in the public sector shows the extent of the failure to realize this simple truth. To call a motor-car 'people's car' when the production proposed is some 10,000 per year for a population of over 400 million is, to begin with, patently incongruous. By introducing the new model, a new want is created, social pressure to obtain a vehicle widened, savings decreased, and credit control made more difficult, and an additional social conspicuous distinction is created causing disharmony. Thus, quite apart from the unfavourable implications for resource allocation and productivity, a positively harmful influence is created on the demand side.

The control of productive activity through licensing should conform closely to the desire to create a balanced socialist society if that is really the declared political desire of the country. The creation of

new wants is directly hostile to saving and accumulation and thus impairs the growth of the economy. It must be kept under strict control. In particular, care should be taken now not to introduce into Indian society the social escalation of material desires which has led to such frustration in the highly developed industrial countries of the West. A better balance between work, leisure, material income, and satisfaction and between private and collective consumption might be striven for. This will not merely make India a better balanced society than now exists in the West but will hasten the day (because of a concentration of effort and the avoidance of conspicuous consumption) when a satisfactory minimum standard of life for the great multitude of the Indian people can be achieved.

In principle, by appropriate tax reforms progress towards better distribution of wealth could be achieved. In practice, the resistance of the majority of the voters to increased taxes, even when they are not personally affected by the tax measures, has been sufficient to limit such attempts. Moreover, the efficiency of the measures has been shown to be impaired through various legal ways of avoidance or illegal types of evasion. It is exceedingly difficult to keep track, and prevent the shifting of the burden of personal taxes on to the organizations employing them so long as the organizations are privately owned. New loopholes have always been found, and the attempts to make taxation effective call for the employment of increasing numbers of able and skilled persons whose efforts should rather have been concentrated on increasing productivity and production.

In these conditions, national ownership and public accountability represent one way of securing the greater equality and increasing share of the national income devoted to collective purposes which are essential for the establishment of a balanced and satisfied community. National ownership can perform this task only if it does not result in inefficiency and waste and if it can contribute to national accumulation and investment.

In particular, the dynamism of Indian growth of population – and of production – necessarily creates a vast appreciation of land value. In the social and economic framework of India, a large part of this capital gain has been alimenting consumption. Thus the failure to acquire land near cities and development sites represents an important cause of the increase in inequality and of the insufficiency in domestic savings. Public ownership of land acquired compulsorily at pre-development-use value is an essential requirement for the success of

the conception of the Plan. Land should then be leased to users for periods long enough – forty to fifty years – to enable orderly planning and give material incentives but not long enough to permit large speculative gains.

The mere fact that a proposed industrial development (e.g. the production of a small car) is to be included in the public rather than in the private sector is not sufficient to establish its desirability. While the increase in the scope of the public sector is an essential condition in the strategy of establishing a 'socialistic' society, each individual project must be carefully scrutinized from the point of view of its effect not merely on the pattern of income distribution and demand but also on the rate of growth of total national accumulation and production.

THE RELATION BETWEEN PHYSICAL AND FINANCIAL PLANNING

A certain lack of clarity characterizes a great deal of the discussion on the requirements and implications of planning. In particular, there is a tendency to regard the problem in global monetary terms and to calculate the resources in terms of various types of finance. The outlay is calculated in terms of money, and the estimates are made, on the basis of various hypotheses regarding the growth of the national income, consumption, imports and so on, of how this outlay can be covered by taxation, savings, and the increase in cash holdings in the economy needed as a result of the expansion.

This procedure is thought to safeguard the stability of the system, avoid inflation, and secure balance. Even the experience of highly integrated and fully developed economies with flexible production structures has not borne out the hopes implicit in this attitude. In the first place, the impact of taxation on savings and consumption is not easy to forecast. Secondly, modern economies have shown themselves prone to sharp bouts of instability, due partly to changes in the demand for durable consumer goods and in the demand for stocks of commodities for working capital. The anticipation of price fluctuations of primary products has an extremely destabilizing effect, because it brings forth the fluctuations which were anticipated and thus proves self-justifying. The experience of Mr Gaitskell in Britain in 1951, when he tried to balance the nation's economic account by cutting social services by £40m. and was then confronted

with an increase in commodity stocks of roughly £600m., shows the difficulty, in an unplanned economy, of achieving a neat global balance. A similar difficulty was experienced by India in 1958 when the unplanned increase in the capital goods imports by the private sector resulted in a drain on exchange reserves.

No doubt the physical controls now in being in India can be used to prevent such strain. Nevertheless, reliance on global balance would seem to be both ineffective and liable to hinder the attainment of the professed objectives of the Plan.

In the first place, global balance is likely, in present Indian conditions, to be quite insufficient for assuring stability. The Indian economy is not an integrated system. The subsistence agricultural and small handicraft sector is only tenuously linked with the organized money economy, and remains extremely rigid. The elasticity of the economy is further limited by the lack of foreign reserves and the unfavourable outlook for the bulk of traditional exports.

The lack of detailed physical planning for each sector might in these circumstances result in awkward partial unbalance which might put a very severe strain on supplies and prices in one sector. This could start an inflationary general rise in prices and prevent an increase in real output. The gap cannot be bridged by imports. Failure of careful and detailed physical balance in vital sectors will also result in a failure to attain the hoped-for rate of expansion, for no idle reserves in productive capacity and usuable manpower are available. It is essential, therefore, to move from the simple global calculations to a more detailed plan.

The economic meaningfulness of the global balance is further impaired by the character of foreign finance which tends to increase rather than decrease the rigidity of the investment process. Foreign resources are more easily available for certain specific projects than for general balance-of-payments purposes. In consequence, while the need for complementary imports increases, the capacity to pay for them does not rise and a further unbalancing factor is introduced into the picture.

In these conditions, the failure to plan sectorally on a physical basis may result in the loss of valuable opportunities and depress the maximum attainable rate of expansion. Indian national income has been shown in the past ten years to be still subject to the influence of the vagaries of the weather. Unless detailed preliminary physical plans are prepared well in advance and possibly beyond immediate

implementation possibilities, against the chance of increased foreign aid or unforeseeable increases in harvests, such opportunities cannot be fully exploited. Not only will resources thus be wasted but incalculable harm will be done to the psychology of the producers.

These seemingly self-evident propositions do not appear to be firmly grasped. Nor is the close relation between sectoral balance and the size of the Plan realized. The 'Draft Outline', for instance, foresees a rate of growth of agricultural output of over 6 per cent. per annum. Yet it assumes that national income is to rise by not much more than 5 per cent. per annum, although industrial output is expected to increase by about 10 per cent. per annum. Unless total income rises far faster than agricultural output there is danger of an agricultural crisis which would put a stop to any ordered expansion. These relationships are either not understood or deliberately neglected.

Global planning has a further and even more unfavourable consequence. In order to be successful, it has, at least subconsciously, to pay attention to possible physical limitations. Thus the global balance must be struck on the basis of the narrowest anticipated bottleneck to be on the safe side and avoid inflationary pressure. Hence the discussion is usually conducted by reference to the need for maintaining sound financial principles. This means restricting the Plan to the rate of the least progressive sector of any importance. Development is restricted to the rate at which bottlenecks are no longer anticipated, i.e. at which no concentrated administrative effort is needed or special responsibility is thrown on to the bureaucracy. The great advantages of this procedure are patent from the point of view of the 'planners', even though it means that the economy is held back well below the possibilities which could be achieved by an appropriate mobilization of resources (especially rural resources).

Global planning in India thus means not merely a loss of potential income but also a threat to the character of balanced social development, because it results in an insufficient provision of employment at average wages to the increase in the population, and thus increases inequality between those who are privileged to obtain employment and those whose needs both for work and income necessarily remain unmet. Once this is realized, the meritoriousness of a 'conservative' financial policy and 'sound' global resource-utilization planning vanishes. It is revealed as a kind of mental laziness and lack of

determined courage which tries to shirk exertion at the cost of perpetuating, or at least prolonging, the agonizing transition period during which Indian planning will not be able to provide a substantial equality of opportunity for the population.

The only politically sound and morally responsible strategy involves steady pressure up to the limits of physical resources. It involves hair-sharp sectoral balance and concentration of attention on the widening of supply bottlenecks as they arise. The soundness of a plan from a national point of view can be tested only by the strain it causes. A lessening of strain, the accumulation, for instance, of foreign reserves, means that the system is not being driven to the utmost of its physical capacity. It means not a success but a failure of planning. This does not mean that the strain should be permitted to make itself felt through an uncontrolled inflation. The consequences of such an inflationary process in Indian conditions would be most unfavourable both economically and socially. Savings habits are frail, and the distribution of income is very unequal. Inflation would undermine the former and worsen the latter.

Pushing the economic system to its limits means that the purchasing power created through investment, inasmuch as it is not offset by the rise in savings associated with the investment,[5] must be either intercepted by taxation or deflated by direct controls into savings or innocuous expenditure, i.e. expenditure which does not impinge on scarce resources, especially which does not burden the balance of payments but makes use of excess capacity. It means, therefore, a need for constant vigilance and great flexibility.

A further point now needs to be made with some force. Global monetary planning is based really on the principles governing budgets only superficially modified to take into account 'economic' or 'overall national income' changes. It is in essence a disjointed operation which is entirely legitimate so long as the State impinges on the economy only on the margin. Physical planning on the contrary necessarily deals with the continuous stream of the physical requirements of material, men, and power needed to obtain final products. The end of a five-year plan does not mean nothingness. It means that the intermediate stages of the final pattern of output due in the next

[5] The fact that an increased productivity of the investment is likely to raise savings (including the increase in money holdings) does not seem to be appreciated. The efficiency of investment thus is an important factor determining the limits of safe deficit financing.

five years has to be prepared and partly put into being. The fact that in each of the past two five-year plans a certain vacuum opened in the last year, depressing investment below the level which could physically have been maintained (especially as on both occasions the harvest was excellent), shows how incompletely this self-evident maxim has been acted upon. It is essential that the Plan should be elastically rolled forward over a longish, ten-to-fifteen-year period, for otherwise the rationale of the plan is likely to be lost sight of.

This forward planning is also essential because the exclusive concentration on a relatively short fixed period is likely to lead to unbalance and a deterioration in the quality of projects. If, for instance, regional 'balance' is striven for in each five-year plan, or indeed in each annual budget period, this will inevitably entail pressure for decentralizing projects in order to share them out, with attendant loss in productivity. Thus short-term budgeting, far from ensuring 'fiscal responsibility' and 'soundness', undermines the effectiveness of planning.

INVESTMENT AND GROWTH

The rate of economic progress will depend partly on the rate of investment and partly on its effectiveness. The experience of the two five-year plans has demonstrated the difficulty of raising the rate of domestically financed investment. We shall presently discuss ways in which the domestic capacity to undertake investment can be strengthened. Even if greater success can be achieved than can at this juncture be confidently expected, the utmost effort will be needed to secure the highest possible return for such limited investment as will prove practicable. Domestically carried net investment is only about 8 per cent. of the national income, in contrast to more than 25 per cent. in Japan and 20–22 per cent. in Germany. In the next ten years it is to rise to 16 per cent. Unless completely revolutionary financial measures and direct controls on consumption are undertaken this will only be possible if national income rises sharply, i.e. if investment is very effective.

Such an increase in the productivity of investment has in fact been assumed for the Third Plan: the rate of increase in income is to be accelerated from 3·5 to over 5 (really 6) per cent., or by 40 (70) per cent., while investment is only to increase from 11 to 14 per cent.,

or just over 25 per cent. There is, of course, no physical impossibility about this task. The fact that a considerable investment both in industry (steel) and agriculture (major irrigation works) has by no means yielded its full fruits during the Second Plan is obviously a great help. But to obtain full yields in future will necessitate energetic and coherently planned action. It will not be an easy task. The price mechanism cannot at present in India automatically ensure optimum allocation of resources or their efficient utilization. Detailed and careful planning on the physical side is absolutely inescapable if this is to be achieved.

This need for concentrating efforts to increase physical productivity of capital investment does not seem to have been realized or, if realized, not sufficiently taken into account in planning production. The comprehensible desire to assure an even development of the country, and more especially to accelerate the economic development of the more backward regions, has in this respect had an exceedingly unfavourable impact.

Expansion in the advanced areas is easier to start and also less costly in capital investment to sustain. In these areas, a supply of trained manpower is more easily available, the infrastructure (social capital of energy, transport, etc.) already exists and can be expanded at a cost low in comparison with that of its initial establishment in backward areas. By concentrating at first on a few privileged regions, therefore, a greater increase in income can be achieved, and thus the point can be hastened at which cumulative growth can be attained on the basis of domestic resources. A more rapidly increasing income automatically results in a faster cumulative expansion of resources at the disposal of the government. Over a longer period, therefore, a balanced growth of the country can more efficaciously be secured by concentrating effort. Admittedly, in the short run this would mean an increase in the inequality between the most favoured and the less favourably situated areas. It would not increase the extremes of inequality, because in either case a number of people will for some time be left out in the cold because the total increase in population cannot be placed in employment at around average income levels. In as much as the dispersal of progress postpones the day on which full absorption of the increase in population can be achieved, it also aggravates inequality from a longer-run viewpoint.

Statements made by the government, including the 'Draft Outline' of the third five-year plan, indicate that many do not seem to be

aware of the dilemma which exists. The inescapable choice between decentralization and effectiveness of capital investment is completely ignored. It is evident from the strain thrown on the transport system and the immense increase in the needs for new investment in railways that the diversification of industrial development has already exacted and continues to exact a tremendous toll from the available scarce capital resources of the country.

This is not all. Attempts both in the private and public sectors to distribute industries equitably have led to two further unfavourable developments. In a number of important industries (including the chemical industry), a deliberate policy of spreading investment over a number of localities was adopted. Thus the scale of production in each unit was reduced, with consequent increases in costs of production. In certain cases, this has led to the creation of excess capacity which cannot be utilized for a long time to come.

Another aspect of the same problem was involved when the start of new industries was not determined from the point of view of preventing the premature establishment of unduly small-sized units, the very existence of which will perpetuate in India the wrong type of production at an enormous cost, and postpone if not prevent the eventual emergence of industries sufficiently productive to compete on equal terms in the world markets. Yet, both from the point of view of Indian economic independence and from that of securing a satisfactory Indian standard of life, the rise of such fully competitive industries is an absolute requirement. The motor-car industry is only one of the glaring examples which spring into mind.

Nor was this the only unfavourable effect. Not only have these industries had an effect in shaping a pattern of Indian demand, and especially the demand of the emergent prosperous middle class towards the unhealthy, acquisitive, and conspicuous consumption which has developed in the rich Western industrially advanced countries but their relative inefficiency will represent a serious barrier against progress towards a situation in which the increase in productivity and the cheapening of the supplies of simple standard products could be expected to produce a socially balanced prosperity on the basis of greater equality in India.

The establishment in India of factories of a size and scale of production which does not correspond favourably to the world level should only be permitted if the unit can be effectively amortized within a relatively short period, and if in the meantime it has a direct

contribution to make to the growth of the Indian economy, either by providing import substitutes of essential capital goods or intermediate products. The establishment of consumers' goods industries should be staggered so as to safeguard productivity and their possible contribution to exports. In particular, the establishment of foreign enterprises in industries in which the market is narrow but expanding, in which competitive supplies cannot be made available through imports because the commodity is not an essential, might well result in such an increase in profits as to burden the balance of payments unduly with future transfers without contributing to the capacity of India to earn foreign exchange either directly or indirectly.[6] Indiscriminate favours for foreign investment in India are not justified unless the conditions of the licence provide a suitable limitation of the eventual burden on the balance of payments or contribute directly or indirectly to foreign-exchange earnings.[7] It would be far preferable to acquire technical know-how or foreign participation in management on fixed terms based on present rather than future profitability. Thus the large gains which will accrue to the firm through the planned growth of the Indian economy would be secured by the country rather than accrue to foreigners.

It would seem essential, therefore, to review the principles on the basis of which the licensing of private factories and the establishment and operation of public ones is handled. The widespread failure at present to appreciate the grave social consequences of lack of attention to the effectiveness of capital investment, especially in the public sector, and the urgent need to increase its contribution to the level of general investment must menace the very aims of the Third Plan.

One of the most important ways in which scarce capital can be utilized more effectively when labour is abundant is the introduction of multiple-shift working and an increase in the manning of the plant. This does not seem to have been encouraged. The reasons for this failure are obscure but they may have something to do with the desire of technicians to avoid a quick physical using-up of plant. Provided that the product is adequately priced so as to provide for an economic replacement of the plant, the fullest possible current contribution of

[6] There would be no import savings if the product is an inessential consumers' good.

[7] The licensing authority should ascertain whether the foreign firm will restrict the exports of its Indian subsidiary or license to foreign countries. Such restrictions might prove very inimical to the Indian balance of payments.

the plant to the increase of the national income would obviously be imperative in conditions of poverty such as exist in India today.

PRICES AND EFFICIENCY

Most of the discussion concerning price policy centres on the problem of avoiding inflation and on the related demand to stop profiteering and promote a more even distribution of income. The role of the price mechanism in allocating resources and affirming efficiency has been stressed only by those who believe that government intervention is unnecessary, indeed harmful, and who plead for general decontrol (including a devaluation or even the 'setting free' of the rupee).

This tendency is deplorable. It is obvious that in present conditions in India the 'free' working of the price system could not bring forth efficient production to ensure maximum growth, or, in the economist's language, it could not function as an optimal allocative mechanism. Relative money prices do not express social real cost. It is equally obvious that the destabilizing effect of speculation would, if 'liberalization' took place, result in a cumulative inflation which could be repressed only at the cost of such deflationary counter-pressure as to cause severe unemployment and threaten growth.

The main but by no means the sole reason for this incapacity of the price mechanism to assure optimum production is the prevalence of underemployment and unemployment. The economy is fragmented between a largely subsistence agricultural economy and an organized sector, the relation between which is only tenuous. Neither in the labour nor in the capital market is there a unified price or even a tendency towards one. In the labour market, mobility is impaired, partly because of the dearth of skilled workers. This again is due to the insufficient educational structure. In the field of salaries, too, imperfection and monopolistic income determination is the rule. It is matched by a non-competitive determination of prices of manufactures. This due to the shortage of entrepreneurial ability, the prevalence of mercantile attitudes, and the scantiness of the market which prevents the rise of vigorously competitive units. Equally marked are the fissures in the capital market. Conditions in the organized banking system and the security markets have little or no relation to the situation which governs the activities of the non-organized money-lenders who supply 70 per cent. of the agricultural population with

what credit they have.[8] But even in the so-called organized market, the small number of units, and the close connections between mercantile, industrial, and banking organizations create a situation which has no obvious connection with the impersonal working of a perfect market.

Thus the deep-rooted lack of integration between the various constituent sectors of the economic structure prevents the enforcement of efficiency through the working of the competitive system in both factor and product markets. Moreover, there are wide differences between the sectors, and even within each sector, in the degree of monopolistic power and in the capacity to exert political pressure. Thus there is no reason to suppose that a 'freeing' of market forces would result in an efficient allocation and effective use of available scarce resources. Inasmuch as the failure of short-term money costs to correspond to long-run comparative real social costs is graver in some sectors than in others, and there is no semblance of or tendency towards the establishment of a unified market, reliance on the price mechanism without a discriminating conscious management is liable to perpetuate or even aggravate the existing inappropriate use of resources.

It should be noted that in the case of economies at an early stage of their development, such as India, the failure of current money prices to reflect the immense potentialities of future expansion in terms of cheapening of production is far more detrimental to welfare than in richer countries. The fact that investment must proceed in discontinuous projects, each of which has an appreciable effect on the working of the whole system (the so-called 'external economies'), makes itself much more felt at a low than at a high absolute level of capital accumulation. The impact of the establishment of modern large-scale industry in India will in the first instance have an effect on the supplies available to, and increase the markets of, all other Indian industry. The price mechanism does not take into account this general invigoration of the economy through investment. Thus central planning, co-ordination, and control of investment in Indian conditions is entirely justified.

The instinctive distrust with which the working of the price system is regarded in India is objectively well justified. This does not mean, however, that planning need not concern itself with prices. Indeed, if it is to be successful, it will have to modify short-run money prices

[8] See *Rural Credit Survey*.

to correspond more closely to the social real costs embodied in them.

Prices in the Public Sector

The problem of the pricing of goods and services produced in the public sector is of increasing urgency as the public sector expands. It has been bedevilled by the problem of inflation and welfare considerations. While the need for the public sector to contribute to capital accumulation is beginning to be acknowledged, the reluctance to increase prices in the sectors under the direct control of the government is obvious and it is often defended on the basis that the national welfare would demand the supply of the products and services at low prices, just covering cost or in certain circumstances even involving losses. There is no justification for this view. If the economy is a mixed one, as in India, and if the majority of the supply of goods originates in the private sector and is priced at a level which includes profits (part of which is used for accumulation), pricing by the public sector at a level which does not correspond to this profit margin means that the product of the public sector is sold relatively cheaper. Objectively, this is equivalent to a subsidy to the price of the goods produced in the public sector. The demand for these goods, therefore, rises beyond the level which would be justifiable by the relative social cost of production. A misallocation of resources may result.

This misallocation is made more dangerous if, as a result of the pricing policy, the public sector cannot meet the demand for its products freely, because of insufficiency of supply, which in its turn is due to the relative insufficiency of investment. The crisis in coal mining, and more especially in metallurgical coke, is an obvious illustration of this point. The continued shortage of transport, due partly to the mistaken price policy of the railways, is another instance.

The misapprehension about the implications for welfare of the condition of the supply of the products and services of the public sector is aggravated in its consequences by the complication due to the monetary situation. It is obvious that in India (as in the fully industrialized countries), a grave danger of cost inflationary pressure exists. Though at times an exceptionally good harvest combined with a lapse of physical forward planning might temporarily ease the monetary tension, it is clear that the process of development will (and, as we argued, should) involve a renewal of such tension. Under these

conditions there are good reasons at any one time to try to avoid all additional cost inflationary pressures. This was a further reason for keeping the prices of the public sector low so as not to invite off-setting wage demands which might set off a spiral and leave the labour market even more fragmented and monopolistic. It should be obvious, however, that the basic relationship between the public and private sectors needs to be readjusted before such an attempt at stabilization can yield satisfactory results. The importance of avoiding underpricing of the products and services furnished by the public sector can hardly be overemphasized. It should be tackled while monetary tension is at a low ebb and carried through quickly.

The Problem of Monopoly

One of the most difficult problems in a newly developed country results from the impossibility of avoiding monopoly or near-monopoly in the industrial sector. The narrowness of the market and the dearth of enterprise make this inevitable. The gravest consequence of this, perhaps, is that a mistaken conception about scale of production and choice of production techniques is not likely to be remedied automatically through the elimination of the inefficient or mistakenly planned units. Once a mode of production has been adopted, it is very likely to persist for a very long period, and to retard the general progress of the economy throughout its existence by contributing less than its share to output and accumulation. Indeed, a consequential maintenance of high prices will have deleterious effects on the achievement of a more balanced and equal society. A large category of goods which would make life easier and healthier will remain beyond the means of the majority of the people.

In a poor country such as India, this particular type of mistake should not be too difficult to avoid. The tastes of the population are undergoing violent change. Most of the needs which will eventually be satisfied by the growing productive capacity of industries do not as yet exist. By refraining from producing certain things, tastes themselves can be managed. If, for instance, a popular car does not exist, demand for it cannot materialize. No one will be disappointed. Thus a careful phasing of the introduction of new industries would merely not act as a safeguard of efficiency and accelerate the increase in national income; it would in the long run also minimize disappointments and frustrations which are unavoidable if the premature

introduction of unsuitable products and production methods results in a production in insufficient quantities of new commodities at high prices, the inaccessibility of which will create a feeling of inequality and discontent. The problem of the concentration of economic power must not be tackled at the cost of forcing the establishment of numbers of inefficient units.

A strict discrimination in the licensing policy in favour of goods the production of which can be initiated at an optimal scale (like sewing machines and simple fans), so as to be fairly competitive internationally, seems essential. Far from spreading production over a number of units, the licences should specify clearly a minimum scale of productive capacity for which the licence is given, and also the conditions under which further firms will be licensed when the market expands sufficiently. The problem of the abuse of monopoly can preferably be tackled by control over price and the distribution of profits. The argument often seen in textbooks, that monopoly inevitably leads to inefficiency and lack of innovation, has not been borne out. Some of the concentrated industries have made most technical progress. Nor is the argument altogether valid that concentration of investment capacity (through ploughed-back profits) necessarily leads to a worse allocation of capital than if it were channelled through the capital market. The capital market itself is imperfect, and the judgment of the directors of great industrial concerns might well be better, and based on more scientific information, than that of stockbrokers and financiers. Multi-product firms can initiate flexible changes in production so as to maintain returns on capital investment and branch out in new directions. Management is an art in itself and is not dependent on a narrow technical knowledge. It is an art, moreover, which is very short in contemporary India, and which should therefore be used as widely as possible. If, however, the concentration of power is to be limited for political reasons, a scheme can be devised by which a growing portion of profits in excess of certain perdetermined limits would have to be deposited with a development institute or board, to be invested by that institution in its own name in new projects under the Plan. The company would retain the right of withdrawing these deposits *pro rata* if its earnings fell below the norm. Thus a profit equalization account would be established which would decrease the risk on equity capital while strengthening the country's capacity for accumulation without risk of combinations.

Still, monopoly might become stagnant and rely on its market

power for profits. This aspect should be dealt with directly and not indirectly. If the control over monopoly and concentration of economic power is not to have unfavourable effects on efficiency, it is essential to establish some organ technically well equipped to follow closely the development of output and to supervise pricing policy as costs decrease through increasing sales. This organ ought also to take charge of the licensing of industry and enforce full utilization of productive capacity. It would have to initiate detailed studies concerning the development of productivity in industry and have power to issue directions on price and production policies subject to the same kind of appeal procedure. In this way, a constant pressure could be maintained towards steady technical progress and a decrease in costs. Such decrease in costs, of course, need not necessarily be passed on to the consumer. If demand rises beyond the existing capacity, and expansion of existing capacity does not seem to be justifiable from a general national point of view, the supervisory organ might propose an increase in excise taxes, to siphon off purchasing power for the purpose of further increasing investment and production (not, of course, necessarily of the same product).

Identical principles ought to be applied to the public sector. In particular, a close watch should be kept on the development of the cost structure so that administrative pressure can be maintained to assure continuous attention to efficiency and cost reduction. It is obvious that much closer attention must be paid than hitherto to the problem of securing adequate return on the capital invested in the public sector. The expectation of low or no return is either the mark of inefficient allocation of scarce resources or, what is more probable and even less excusable, the acceptance of inefficiency in the use of the resources allocated. Both lead to an insufficient increase in national income and must not be tolerated.

Exchange Rates and Interest Rates

Two important sectors of the economy are, in particular, subject to inevitable distortions: the foreign exchanges and capital. We have already alluded to the fact that so long as unemployment is rampant and imports are severly controlled, the benefits accruing to India by higher exports (and imports) are far higher than indicated by the current rate of exchange. This is evident if we recall, for instance, that the import of additional fertilizers might increase production by some

three times the value of the imports. Thus the export of additional commodities to buy fertilizers would pay marginally even if a large subsidy over the conventional rupee parity had to be paid. The advocates of devaluation (and even more of 'liberating' the rupee to 'float') do not take into account the inevitable general inflationary pressure which this would engender and the speculative flight which it would stimulate. Devaluation would certainly do more harm than good. This does not mean, however, that for the purposes of allocating scarce resources and deciding what kind of exports to encourage, a more realistic rate of exchange should not be used. Non-discriminating subsidies are as inappropriate as a non-discriminating devaluation. But the principle of discrimination must be based on relative social real cost.

The capital market also obviously fails to reflect possible social gains. It is obvious that the returns provided for public investment are in no way commensurate to the profits that can be obtained by the private sector. The inference that the profit margins in the private sector are excessive might be justified but is not, as it is thought to be, necessarily so. The cost of credit obtained from the organized banking system and capital market does not reflect this productivity of capital. This may well lead to an increase of the size of inventories and also to a preference by manufacturers for relatively costly, because more highly automatic, machines which do not give as much employment per unit of output. It will also facilitate the less than full use of machinery.

There are weighty objections to a general rise in interest rates. The disappointment of bond-holders, the shrinkage in values, has unsettling effects. One possible alternative would be to impose a (variable) tax on borrowing from the banks and on new obligations. This would still not deal with the problem of the relative subsidy to highly mechanized plant implied in the rate of exchange. That, however, could also be suitably dealt with.

Discriminating tax concessions, such as variable depreciation or positive investment allowances, or outright taxes and subsidies on capital investment, can be utilized to harmonize the social and private cost of capital investment (especially if it has high import content). This would ease the job of the licensing authorities and provide financial incentive to those who conform to the objectives of the Plan. Moreover, the method of decision on investment in the public sector (including certain economic activities of the Ministries themselves,

e.g. the rehabilitation of land) does not seem to envisage the need for an adequate return at all. Indeed, any suggestion that the public sector should have surplus available for further increasing investment seems to be repudiated as 'profiteering'.

A decision to approve investment plans which do not contribute to capital accumulation must be regarded as a subsidy which has to be explicitly justified, and not as a self-evident course of action. It should not be necessary to add that the assurance of such surpluses by way of a monopolistic rise in price rather than steady pressure on cost would be largely self-defeating and anti-social. Administrative arrangements are needed whereby the units of the public sector must show cause why their costs do not fall parallel to economies achieved abroad. Their management should be penalized or reorganized on prolonged or recurrent failure.

Agricultural Prices

Beyond the reorganization of rural production, an atmosphere needs to be created in which any such attempt can be successful. It is regrettable that the ineluctable basic economic problems and principles of economic development such as are faced by India are still only imperfectly understood.[8a] The problem, reduced to its bones, is to limit consumption and encourage production as much as possible. Whatever ease transient or accidental factors may produce from time to time, it is essential to remember that the relief of abject poverty depends entirely on the vigour with which investment is pushed and productivity increased. But the relentless increase in investment which is an essential condition of success inevitably means a steady inflationary pressure which only increased production can relieve. Measures, such as a cut in price, which encourage consumption and discourage production and limit investment, are to be deplored. They do not help; they hinder the relief of poverty. If the profits are not to accrue to the producer, they should be diverted to public investment by increased taxes.

In no field is hesitancy about price stability more disastrous than in agriculture. In a situation, as in India, in which the growth of population and income is likely to lead to a renewed upward pressure on prices, because it threatens to surpass the growth of agricultural

[8a] See Part Two Chapter Four on the problem of Agricultural stagnation.

production, the hesitation about a scheme of guaranteeing prices seems perverse. Price falls will necessarily increase consumption which ought to be restrained, as it cannot be sustained when the temporary factors of the (relative) glut cease. They will discourage the concentration of the cultivator on the physical problems of increasing production. Thus they might endanger future progress. On the other hand, increasing stocks in the hands of the government will (together with the knowledge that foreign help will continue) discourage speculation when the natural rhythm of development and population growth coincides with unfavourable seasons. Substantial price stability is one way in which self-help on the part of the cultivators can be made effective. While the techniques and needs of increasing production will necessitate other measures, especially flexibility in relative prices, such measures will not be successful until the general problem of price instability in agriculture has been satisfactorily solved. In all countries in which the risk of price slumps had been eliminated, the increase in physical productivity was spectacular. There is no reason to doubt that it will have much more favourable results in India where there is such room for improvement.

It is essential for this purpose that the prices of the agriculturists' main products – food-grains, oil-seeds, sugar, and possibly cotton – should be stabilized within agricultural years (with small changes, mainly in relative prices, between successive seasons).[9] Once such continuity and security is given, the practice of buying grain just before harvest at low prices is automatically prevented. Thus the main cause of the peasants' economic weakness would disappear.

Such stabilization of prices can only be successfully carried out if a buffer pool is created which is backed by sufficient storing facilities and widespread marketing agencies. It must be capable of effectively offering a minimum price to the cultivator so that the merchant will have to be content with a reasonable margin. Whether or not the pool should also have a sales organization which deals with the public directly will depend on whether pressure is to be exerted on retail margins. Wholesalers, however, would be effectively limited by the operation of the buffer pool.

[9] It would seem essential, for instance, to try to stimulate the production of easily exportable produce, such as oil-seeds. Whether this should be done by a variation of relative prices or by production subsidies or by special allocations of fertilizer is a problem which cannot be solved on the basis of principle; what is certain is that a flexible discriminating policy is required.

Once a buffer pool is in operation, the problem of supervised credits to larger peasants and landowners is automatically solved, as they will be able to make use of the organized credit market from which they are now precluded by the uncertainties of the market and the precariousness of their position.

The problem of the capital needs of the small peasant tenant or sharecropper cannot be solved in this way. Only the necessarily slow building-up of co-operatives will be able to deal with this problem. Supervised credits to small peasants cannot be administered, and without supervision and reorganziation any credit scheme becomes a disguised subsidy. If energetic action is taken, some progress should be made in the next five to seven years, when the combination of population pressure and increase in income should especially weigh on the agricultural supplies.

THE PROBLEM OF TAXATION

In principle, the problem of obtaining a (growing) share of the increasing increment of that national income should not represent an insoluble or even difficult problem. No one need suffer any hardship. The successful diversion towards investment of even a lesser part of the increment of income, say between a quarter and a third, would achieve a revolutionary change in the prospects. If national income increased by only 25 per cent., this would result in an increase in domestically financed investment of from about 8 per cent. of the national income to 14–16 per cent. The aim of the Fourth Plan could even be achieved during the Third.

We have already discussed the socio-political obstacles in the way of increases in taxation of the well-to-do. In addition, there is the grave problem that a large part of the improvement would go to agriculture, and, given the abject poverty of the greater portion of cultivators, it would be difficult to prevent their benefiting fully.

Moreover, in practice it is difficult to devise a tax system which would lop off increases rather than impose actual cuts in consumption. In any case, taxation aimed mainly at reducing increments would imply an unjustified acceptance of the income distribution at the outset of the Plan. Moreover, the taxation of increments would have a greater deterrent effect on effort and enterprise than tax measures aimed at the level of total income.

Taxes aimed at the consumption of non-essentials might be an[10] effective substitute for more complicated direct taxes.[11] It would be essential to increase indirect taxes as soon as possible so as to avoid the growth of habits and demands which would have to be disappointed later. A rise in prices, once the consumer had settled into his new pattern of needs, is prone to lead to wage demands and cumulative imbalance, while the absence of supplies or their relative unattainability might lead to an increase in saving. By intercepting a large part of the difference between imported and domestic price, and of any cheapening in production cost (leaving some incentive for further improvements), the investment capacity of the country can be strengthened.

An alternative would be to follow the French example of making income tax dependent or mainly dependent not on income returns, which may be defective, but on the apparent consumption, indicative of income. The possession of servants, cars, the size of habitation, and so on would be expressed in terms of presumed income. Certain kinds of expenditure (say, on servants or on handicraft products) might be exempt, as they might represent the giving of employment to people otherwise not easily utilized in the development programme. The returns would be published and would be subject to amendment. In India, where people are exceptionally well informed about each other's mode of life, this might well prove an effective way of stopping evasion. One argument against this system might be that the Indian way of life involves conspicuous consumption in irregular, large, discontinuous disbursements. These could, in principle, be included and spread over a number of years (as royalties are in the highly developed areas).

One of the most important loopholes in the tax system is the provision of untaxed income in kind. One of the two possible ways of dealing with this problem is the taxation of the (private) company on the basis of personal taxes with the exclusion of all expenses benefiting a director or manager, thus eliminating all advantages from the evasive action. Alternatively, the company would not be permitted to claim general expenses beyond a certain percentage of total turn-

[10] See Mr Kalecki's paper on the 'Financial Problems of the Third Plan', *The Economic Weekly*, 9 July 1960.

[11] The land tax and tax on agricultural rents suggested by Mr Kalecki and by the FAO Mediterranean Project might be less easy to evade, though the extraordinary hold on the small peasant and tenant of the village leader might vitiate its working.

over and would pay corporation tax on the basis of the adjusted level of profits, unless it can prove that those general expenses did not really represent income payments in kind.

All these solutions would be subject to intense agitation, resistance, and a frantic search for escape. It is difficult not to feel that the best way of dealing with inequality is to prevent its worst features through public ownership, rather than trying *ex post* to remedy its consequences. This, as we have already said, applies especially to landownership, where capital gains serve no useful purpose in terms of stimulating effort: the amount of construction work, especially building, is limited by national considerations and not by lack of incentive. Attempts to deal with inequality through indirect control measures (e.g. the dispersal of industry and limitation on the scale of operations) are likely to defeat their ends by causing a slowing-down of the increase in national income.

THE RELATIONSHIP BETWEEN SOCIAL FRAMEWORK AND OUTPUT AND PRODUCTIVITY

The 'Outline' of the Third Plan shows little, if any, awareness of the need to consider measures of economic policy, or indeed the whole process of economic planning, in their social and political setting and framework. This lack of awareness is surprising, because both the successes and failures experienced during the first two plan periods point clearly to the importance of these factors in the development of a country such as India, a development which will clearly involve a revolutionary change in both.

Rural Areas

The emphasis in the plans for rural mobilization for agricultural progress seems to be based on the development of co-operatives and the mobilization of idle manpower for communal progress. The conception of the plan is admirable. Unfortunately, as the UN Commission of Evaluation of the Community Development Programme has clearly shown, these plans and proposals were in no way matched by actual performance.

The change in the philosophy of community development schemes from welfare measures to the organization of production must, as we

have already said, obviously be regarded as a great step forward in the fight against poverty. It is unclear, however, that this progress in basic concept has in fact been matched by an adequate change in policy planning. The Plan very rightly envisages[12] that a much greater contribution by the beneficiaries of various schemes is needed, and also that a regular labour contribution for the building of community assets for increased productivity and production should be organized on a 'large enough scale with the maximum consent'. In view of the failure in large areas to connect major irrigational works to the feeders, and the failure to introduce improved methods, there is justification for the new and stronger emphasis on public initiative in this matter. It is less clear whether the central government realizes that the very failure shows that the social framework has not been very clearly considered.

It is possible to launch a scheme based on voluntary participation if the participants are fanatically convinced of the metaphysical importance of their sacrifice (e.g. the Israeli Kibbutdzim). It is also possible to launch a scheme on the basis of total indoctrination buttressed either by police or by compulsion (China). It is much less easy, but still possible, to cajole participation by appeals to self-interest, if some measure of penalty (social or taxation) is kept in the background. But in a village riven by differences of status and interest it is difficult to envisage success based on exhortation.

If the solution is to be mainly based on the small peasant through the formation of co-operatives, its success must be ensured partly by tax measures which enforce the sale of tenantal estates, combined with suitable incentives through guarantee of price, linked public works, and other means by which increments of income are reserved for those who join the co-operative and carry out the works needed to introduce modern production techniques. Exhortation alone will not work.

Such increase in agricultural output as was achieved seems to have come by way of an increase in the irrigated and crop areas rather than from improved techniques, though the use of fertilizers has become widespread, with good success. Progress seems to have been faster in areas in which the medium and rich peasants play an important role. They have both the means and the incentives to increase production and, as far as statistics indicate, they have made some use of the opportunity, though much faster progress is needed.

[12] 'Outline', pp. 68–71, especially para. 30.

If the Third Plan is to succeed in increasing the rate of expansion of agricultural output from the 2·5 or 3 per cent. per year achieved in the Second Plan to the envisaged 5·5 or 6 per cent. of the Third, a much more realistic attitude to the problem of rural social organization will have to be adopted to achieve the object. The government can either fully back the successful owners of a viable type and hope for a bourgeois-entrepreneurial type of revolution on the land, or it can energetically push the rise of a new co-operative rural organization through determined leadership. Only in exceptional regions can both methods be attempted simultaneously, possibly by leaving the rich peasants out of the communal efforts to organize modern production, counting on their self-interest to make up for the lack of technical knowledge which can be channelled to individuals less easily than to the co-operatives. The oscillation between the two policies, or rather the pious declaration in favour of socialistic co-operative solution while actual reliance is centred on privately initiated improvement, is likely to continue to hamper accelerated growth. Continued uncertainty caused by suggestions of further reform of land tenure is quite incompatible with substantial improvements in production. If further land reform is to be carried out, it should be effected without any further delay and be accompanied by energetic steps to increase productivity of the land.

Industry

Much the same observations apply to the industrial development. The anodyne statement about peaceful coexistence of public and private sector in a mixed economy, and their continued parallel progress, must not deceive anyone about the existence of a sharp dilemma. Actual policy followed tends to limit accumulation not merely by price-fixing but also by tax measures which do not suitably discriminate in favour of maximum capital investment. It also discourages multiple-shift working. In addition, policy aimed at a greater equality of income is often conducted through restrictions which interfere with efficient production in the private sector.

It was argued in the previous section that the establishment of a balanced society presupposes a considerable expansion of the public sector. A more equal distribution of income and consumption, and restriction of the ruthless conditioning of consumers to cut their saving and indulge in conspicuous consumption, can be more easily

achieved if the way of life is determined by the publicly owned sector, not necessarily subject to a compulsion of profit motive, than it if is determined by a private sector dominated by the urge to secure profits. If, however, the public sector is to take a vigorous part in the national expansion much closer attention will have to be given to the supervision of the efficiency of its management and the training of the manpower from the highest to the lowest levels, and care must be taken that it should shoulder its due part in increasing the rate of accumulation. Much more careful thought will have to be given to the need for substituting non-material incentives in the public sector for the material ones which in the private sector have been able to provide not merely incentives but also penalties through the elimination of the ineffective or unlucky.

The public sector is still extremely small in India. It will represent less than 10 per cent. of total output and less than 5 per cent. of total commodity production. But its importance is increasing, and its absorption of scarce capital supplies is, of course, very considerable – around two-thirds of the total. Unless, therefore, its contribution to income creation and capital accumulation increases accordingly, an indefensible squandering of the scarcest of all India's resources and an unforgivable postponement of India's relief from poverty seem the unavoidable consequence.

Thus the strengthening of the supervisory organs, the elaboration of strict principles of cost accounting in the public sector, eliminating all unconscious subsidy, are an essential basis for the success of the declared policy of the government. Socialism is not merely about the extension of the public sector. Socialism is about the effective use of public ownership to secure high productivity, high and more balanced distribution of income, and a way of life in which collective, cultural, and aesthetic needs, consumption and leisure, are met by an increasing supply of material goods produced to supply need rather than achieve status distinction and express capacity for conspicuous waste.

An alternative possibility would be to allow greater freedom to the expansion of the private sector. Development must not (as happened in coal) be hampered by the inability of the public sector to expand, combined with a dogmatic unwillingness to let the private sector do the job. The use of private firms for the management, for a certain number of years, of large-scale complex industries in the public sector, either on contract or on a profit-sharing basis, would be another possibility. I am opposed to it because I believe it is not

capable of establishing a good society. But it can establish the solid basis for such an eventual transformation. The one method which is wholly inimical to Indian prosperity is the present seeming hesitancy between the two solutions, which is expained by the lack of clarity of thought about the relationship between the social framework and the economic transformation of the country.

India

The three chapters reprinted are among those written as a result of two visits to India. The first had been arranged at the suggestion of my pupil, friend and colleague, V. K. Ramaswami, formerly a Fellow of Balliol and now Economic Adviser to the Ministry of Finance, by Professor Rao, then Director of the Delhi School of Economics. For the second I have to thank Professor Mahalanobis and Mr Pitambar Pant of the Planning Commission respectively. My gratitude to Professor Mahalanobis is the greater as we had considerable differences of opinion about the tactics – though not about the aims or the strategy – of development, differences of opinion expressed in a number of papers.[13]

My first visit to India was early in 1955, at the end of the so-called First Five-year Plan, which was so unambitious as to leave a considerable potential productive power unused. The Indian Administrative Service, evolved out of the British ICS (Indian Civil Service), imitated its parent body in restrictive economic conservatism. With the population explosion beginning this meant taking a tremendous (though not at all consciously calculated) risk, though most administrators convinced themselves (though not the experts) that the population increase would not exceed 2 per cent. Development of the countryside was particularly neglected.

Fortunately the weather proved clement and harvest and national income increased considerably. Land reform liquidated the great absentee landlords (zamindars) whose property rights had been created mainly by the British. But the influential medium and smaller landowners retained inordinate influence. In a number of provinces or states some of the tenancies were repossessed to escape the fate

[13] 'India's Experiment', *Observer*, 1955. 'The Challenge of Totalitarian Planning in Asia', *International Affairs*, 1955. 'India's Plan', *The Banker*, 1956.

of absentee ownership. This is clearly shown by the investigations of the Gokhale Institute at Poona. In many ways and in a large area the land reform has not created the basis of an organized upsurge of production. Such increase as happened occurred on the lands under the richer peasants. With the pressure of an increased population making itself felt, the fate of the landless or tenants may have worsened. Thus inequality in the rural areas has certainly not diminished and may well have increased. Co-operatives could not offset these forces, and community development schemes were conceived on welfare lines instead of boosting production, and this, however laudable, was premature. Their impact might well have increased inequality as they diminished resources available for increase in rural output. I also felt that the problem of rural organization, possibly in the shape of universal national service, received insufficient attention.

At the same time, during the first Plan period very little was done to lay the foundation of an industrial resurgence. The advance here was in lighter industry which did not promise, in the longer run, self-sustaining expansion. The problem thus arose of large changes in economic structure, the establishment of a heavy industry base for continued expansion. This would necessitate a sharp increase in savings and investment, mainly through a budget surplus. Professor Mahalanobis' Plan Frame dealt with these problems. It envisaged a Second Plan very much larger than the First and sought to create heavy industries. I felt that it put too great a strain on the existing administrative structure on the one hand, and on the other paid insufficient attention to the need to organize agricultural production through co-operative action, and possibly through the organization of a national service to sustain the strain. Without these, I felt the effort would be hardly likely to succeed, and might lead to social unrest.

My doubts were borne out by the exchange crisis which befell India as controls were not working satisfactorily. The full completion of the Plan was prevented. Savings and investment did not rise sufficiently. A severe breakdown was only avoided by an unexpectedly swift rise in foreign aid.

The Third Five Year-plan, which is dealt with in the second chapter, was drawn up under a very different psychological atmosphere. The problems had become clearer and the limitations of the social and administrative structure much more obvious. I was convinced that Professor Mahalanobis' basic attitude, yet again opting for a 'large'

Third Plan, was right. Otherwise a change in the wretchedness of the masses could not be achieved. So long as there were unemployed landless labourers, any diversion of the main effort from efficiency was obviously deleterious, even from the viewpoint of welfare, as it meant the creation of new (sub) 'privileged' groups whose situation would continue to contrast strongly and unsettlingly with the misery of the large – especially rural – masses. It was for this reason that I was in favour of concentration of effort to make full use of the increasing savings possibilities of large-scale production and against decentralization of any but the agricultural effort. In that sphere I once more commended a much greater intensity of effort and fuller organization of unusued man-power. In the end the larger Plan was adopted and when the Chinese incursion occurred, this larger Plan was maintained at least in principle by increasing the tax burden to make resources available for its continuation.

Unfortunately the increases in armament in the end meant a slowing down of effective productive investment for non-defensive purposes and despite a further increase in aid up to 1964, expansion seems to have slowed down. The further rapid rise in defence expenditure, combined with the limitation of foreign aid, represents ominous intensification of the trends which have been marring the record of Indian reconstruction in the last period.

All this affects the fundamental problem in Asia, discussed in the first of these papers, the outcome of the challenge of totalitarian planning: for some time after 1958 the relative position of India improved. The catastrophic crop-failures and the withdrawal of Russian aid to China and thus the bankruptcy of the so-called Great Leap Forward coincided with the rapid increase in foreign aid to India. This increase alleviated the pressures generated by the acceleration of investment and enabled the maintenance of momentum of development. The hope was brighter that democracy and accelerated economic progress would not merely prove compatible with, but show decisive advantages in meeting, the challenge of social progress.

The outlook more recently (1964) has been less serene. Given the recovery of China after the failure of the Great Leap Forward, and the brusque reversal of policy towards birth control in that country, it is to be feared that a relative eclipse of development on democratic lines might have serious political consequences in the whole of non-Chinese Asia, which one hoped a decade or so ago could be avoided. The early optimism must not, however, be allowed to change too

violently. Yet can there be any doubt that a much greater and more determined effort, especially in rural areas, will be needed, fully backed by foreign aid, if such disillusionment is in fact to be avoided? The growing resistance in rich countries of the non-communist orbit against an accelerated increase in aid as they become more opulent, could hardly come at a less auspicious moment. It might contribute to force India more openly out of its neutral posture and on to a path towards authoritarianism to obtain aid. The democratic values and progressive concepts underlying the earlier plans would then unhappily be vindicated – negatively.

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